

Lotus Eye Care Hospital Ltd.

Price Band	: Rs38 - 42 per share	June 11, 2008
Issue open between	: June 12 - 17, 2008	
Recommendation	: None*	
Book Running Lead Manager	: Keynote Corporate Services Ltd.	
To list on	: NSE & BSE	
Grading (CARE)	: 3 / 5	
Market Cap post-listing	: Rs87Cr or \$20mn (based on the cap price)	

(* Being the associate of the lead manager to this IPO, we are unable to give a recommendation; also read disclaimer on page 8)

IPO of 10mn equity shares of Rs10 each, aggregating to Rs42Cr or \$10mn (at the cap price)

Shareholding Pattern

Shareholder Categories	Pre-issue		Post-issue	
	No. of shares	% Holding	No. of shares	% Holding
Promoters	10,541,030	97.6%	10,541,030	50.7%
QIBs excl. Mutual funds	255,300	2.4%	5,005,300	24.1%
Mutual funds	0	0.0%	250,000	1.2%
Non-Institutional Investors	0	0.0%	1,500,000	7.2%
Public	0	0.0%	3,500,000	16.8%
Total	10,796,330	100.0%	20,796,330	100.0%

Executive Summary

- Lotus Eye Care Hospital Ltd. (LECHL) is a leading super-speciality eye care company with eye care hospitals and clinics at locations in South India. It has a network of 4 hospitals, out of which 2 are based Coimbatore, and one each in Salem and Tirupur.
- Top line and bottom line grew @ 177.6% and 147.7% respectively in FY07 on y-o-y basis. It has reported EBITDA margins of 39.7% in FY07.
- Indian health care sector is valued at \$34bn and is projected to be \$40bn by 2012. Healthcare accounts for approx. 6% of the GDP and is focused on by both the government and the private sector.
- Medical tourism can be a major trigger. Indian medical tourism was estimated at \$350mn in FY06 and is projected to grow to \$2bn by 2012. The emergence of India as a destination for medical tourism leverages the country's well educated, English-speaking medical staff, state-of-the-art private hospitals and relatively low cost to address healthcare needs of western world. India provides treatment, at less than 1/10th of cost in US.
- This industry is highly financial and human capital intensive. LEHCL scores well on this front; it has hi-tech eye care equipment and ophthalmic experts backed by a well-trained paramedical and administrative team. It has readily available human resources for the proposed expansion. It also has a training centre for budding ophthalmologists.
- Expansion plan involves capex of Rs55Cr to be funded through mix of equity, debt and internal accruals for expansion at existing units and setting up new centres.
- Concerns are timely implementation of expansion and staff retention. Timely implementation of expansion of eye care centre may pose a challenge, as it may be difficult to get the required number of qualified doctors and other support staff to work in these locations. Retention of key personnel may also be a challenge.
- At the cap price, the IPO is priced at a 16% discount to the price (Rs50) in respect of pre-IPO placement in January 2008 to BCCL. IPO is priced at 31.8x based on pre-issue weighted average EPS and at 20.7x based on annualised EPS for 9 months to December 2007 on pre-issue basis.

Company Background

LECHL was incorporated in March 1997 as Kalaivani Health Centre Pvt. Ltd. In January 2006, its name was changed to Lotus Eye Care Hospital Pvt. Ltd. It was converted to a public limited company in November, 2007.

Management team

Dr. Selva K. Sundaramurthy, 63, Promoter, CMD & Chief Ophthalmologist, is FRCS (Edin) and FRCO (London). He has over 2 decades of experience in the field of eye surgery. He also served as a Consultant in UK and the US.

Dr. Kaveetha Sundaramurthy, MBBS, (daughter of CMD) is pursuing PG residency programme in medicine in the US. She will actively participate in management on completion of her PG.

Ms. Sangeetha Sundaramurthy, software professional, (daughter of CMD), is pursuing MBA in Chennai. Her services will be available on full time basis once she completes her MBA course.

Mr. P. K. Venkatachalam, agriculturist, is a non-active director of the board.

Independent directors

Dr. S. S. Badrinath, Ophthalmologist, PG from Brooklyn Eye and Ear Infirmary, Boston. He is the founder of Medical Research Foundation and also Chairman of Shankara Netralaya.

Dr. Yogesh Shah, MSFCPS is chairman of Netra Mandir, and President of Dr. C. M. Shah Memorial Charitable Trust. He is also member of several All India ophthalmic organizations.

Mr. G. R. Sundaravadivel, M.Com & CAIIB has 3 decades in various nationalized banks.

Mr. D. R. Karthikeyan, IPS officer is associated with Indian and International organizations both at institutional and government level such as Law, Human Rights and Corporate affairs.

LECHL gets recognition as being the 1st in India for

Year	Technology
1998	Introduce Multi Scan Lasik
2002	Installed Wave front based Esiris Custom Lasik
2004	Introduced technology of Epilasik
2005	Advanced technology of Zypotix to achieve Supervision

Health Care Industry

Indian health care industry accounts for approx. 6% of the GDP, is valued at \$34bn and is projected to be \$40bn by 2012. It is a major generator of employment opportunities. In India, healthcare is delivered through both public sector and private sector. The private sector accounts for over 80% of total healthcare spending in India.

Key growth drivers for the eye care industry

Growth in population

India's booming population of 1.1bn is increasing @ 2% p.a. By 2050, it is projected to reach 1.6bn.

Expanding middle class leads to having better healthcare

India's economy is driving urbanization and creating an expanding middle class, with more disposable income to spend on healthcare. Due to rising income, today most of the Indians can afford, advanced treatment for eye care.

Middle class	% of entire population
FY99	44.9%
FY02	50.5%
FY10E	63.0%

Rise in eye diseases

A rise in both infectious and chronic diseases is leading to increased demand for eye care. Since the risk of eye diseases increases with age, India is likely to see an increase in eye-related ailments in future, as the average age of the Indian population increases.

Business Description

LECHL has a network of eye care hospitals with 9 operation theatres and 3 lasik laser equipments. Most of the eye operations are performed as a day care procedure and therefore the number of beds maintained is optimum. The total bed strength of all the centres is 120 beds.

Details of centres

Year of start-up	Location of Hospital	No. of beds	No. of surgeries (Dec-07)
1989	R.S.Puram, Coimbatore	10	N.A.
2002	Peelamedu, Coimbatore	70	2524
2004	Salem	25	997
2007	Tirupur	15	134

Classification of centres

Primary eye care unit focuses on patients coming for simple eye problem and optical sales. The unit will provide equipments and manpower for examination, dispensing medicines and opticals. It plans to set-up 3 primary eye care units, out of which 2 are in Bangalore and one in Chennai through this issue.

Secondary eye care centre will be setup in tier II and III locations, wherein patients are referred by individual practitioners and LECHL' primary eye care centers. It has 2-eye care secondary centers one at Tirupur and another at R.S. Puram. After completion of new building, which is in progress, the R. S. Puram center will function as full-fledged secondary eye care unit. It plans to set up additional secondary eye care center at Karur through the proceeds of the present issue.

Tertiary eye care centre: It provides one stop solution for all complicated eye diseases with complete infrastructure with latest eye care equipment, supported by large team of specialist doctors. It will function at Peelamedu (Coimbatore) and Salem to handle complicated eye diseases. The tertiary eye care provides Lasik/Epilasik, cataract, glaucoma, diagnosis treatment, diabetic eye disease, advanced vitreo retinal surgical facility, full-fledged laboratory services, clinical research, etc

Revenue-mix

Sources of income are from outpatient, daycare and inpatient hospital services and retail sales in the pharmacy and opticals.

Competitive Strengths

- **Highly Qualified and Well-Experienced Promoter and team of medical professionals**

Dr. S.K.Sundaramoorthy, renowned eye surgeon has more than 25 years of experience in the fields of eye surgery. LECHL is backed by experienced doctors in different specialities who can handle complicated cases.

- **State-of-the-art technology and world-class medical equipments**

LECHL provides comprehensive eye-care services using the world-class technology and skills.

- **Multi-Speciality hospital**

Besides delivering regular eye-care services, it provides advanced level of diagnostic and therapeutic services in the field of vitreous and retinal diseases, Phaco-emulsification surgery for Cataract and customized wave front LASIK laser for glass free vision.

- **Strategic location**

The main centre at Peelamedu is located very close by to the Coimbatore Airport. This helps attract patients from other cities and abroad too. Other centres too are based in prime locations.

- **Centre for budding ophthalmologists**

It is affiliated to National Board of Examination (NBE) a government body for PG training in ophthalmology in which it is authorized to train 4 candidates in a year. It also offers fellowship-training program for fresh and practicing ophthalmology in specialized eye care treatments. An optometry institute affiliated to Dr.Alagappa University, Karaikudy is run by group concern LVRT for courses in Bsc.(Optometry) and Diploma in Ophthalmic Technologies.

Financial ratios

Particulars	FY03	FY04	FY05	FY06	FY07
EBITDA Margins	67.2%	60.9%	27.9%	40.9%	39.7%
ROE	-1.2%	14.8%	-2.3%	15.9%	8.5%
Current Ratio (x)	0.3	1.9	2.1	3.4	4.9
Inventory turnover (days)	0	1	5	4	21
Debtors collection period (days)	0	0	0	0	6

Capex Plan

(RsCr)

Particulars	Phase I	Phase II	Total
Land	0.00	15.80	15.80
Building	2.70	13.20	15.90
Infrastructure	1.50	1.80	3.30
Equipment	6.17	3.63	9.80
Staff quarters	0.75	0.00	0.75
Setting up Primary eye care unit	0.00	3.30	3.30
Working Capital requirement	0.00	1.50	1.50
Public Issue Expenses	2.70	-	2.70
Contingencies	0.00	1.95	1.95
Total Capex	13.82	41.18	55.00

The above expansion plan is scheduled for implementation by January 2009.

Highlights of Projects

Locations	Existing center type	Proposed center type
Peelamedu, Coimbatore	Full-fledged Tertiary	Full-fledged Tertiary
Salem, Coimbatore	Tertiary	Full-fledged Tertiary
Tirupur	Secondary	Full-fledged Secondary
R.S. Puram	Secondary	Full-fledged Secondary
Karur	Does not exist	Secondary
Chennai	Does not exist	Primary
Bangalore - 2 centres	Does not exist	Primary

Ongoing Projects

Construction at R.S. Puram

The existing facility at R.S.Puram is in rented premises. Land is already purchased and it is constructing a new hospital at R.S.Puram, which is likely to be completed by Dec 2008. The existing premises will be shifted to new own premises after completion of construction activity. The new unit will have full-fledged facilities, which will provide treatment for all complicated eye diseases.

Expansion at Peelamedu, Coimbatore

Expansion is undertaken at Peelamedu, after which it will be functioning as full-fledged tertiary eye care centre.

Forthcoming Projects

Move from rented to owned premises at Salem and Tirupur

After shifting to owned premises, Salem and Tirupur will function as full-fledged tertiary and secondary eye care centre respectively. Please refer RHP for land details on the same.

Secondary eye care centre at Karur

To set up a new secondary eye care centre at Karur.

Set up 3 primary eye care centres

To set up 3 primary eye care centres. There will be 2 centres in Bangalore and 1 centre in Chennai to be opened for primary eye care.

Going forward, it intends to setup additional primary eye care centres at various locations.

Means of Finance RsCr

Particulars	Amount (RsCr)
IPO Proceeds	42.00
Debt (Term Loan)	10.00
Internal accruals	3.00
Total	55.00

Risks

(Please refer to the RHP for a complete listing of risk factors)

- Timely implementation of expansion
- Retention of key personnel
- Increasing competition from other eye care hospitals located in the region

Peer comparison

(RsCr)

	Dr. Agarwal Eye Care	Apollo Hospitals	Malar Hospital	Kovai Medical	LECHL
Net Sales	40.18	1053.20	9.33	70.01	6.75
Net Profit	0.15	94.50	0.63	4.70	1.29
Paid-up-Equity capital	4.50	58.69	18.59	10.94	20.80#
Price (as on 09-06-08)	50	486	18	46	42
Market Cap	22	2855	34	50	87
EPS (Rs)	0.33	16.10	0.34	4.30	0.62
Book Value (Rs)	21.5	201.01	10.06	19.26	75.55
P/E (x)	149.7	30.2	53.3	10.6	67.9
P/B (x)	2.3	2.4	1.8	2.4	0.6
P/S (x)	1.2	0.5	1.9	0.6	6.2
EBIDTA margin	10.0%	16.0%	13.7%	19.2%	39.7%
NPM	0.4%	9.0%	6.8%	6.7%	19.1%
52 week High (Rs)	94	630	38	104	-
52 week Low (Rs)	33	362	15	35	-
FVPS (Rs)	10	10	10	10	10

#post-issue capital

FY07 numbers for LECHL, TTM for Malar and Kovai, rest are FY08 numbers.

KEYNOTE

Profit & Loss Statements

(RsCr)

For period ending,	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.12.07
Sales of Services rendered	1.12	1.42	1.83	2.43	6.75	8.07
Expenditure						
Purchase	0.00	0.17	0.27	0.48	1.02	1.44
Staff Costs	0.05	0.08	0.14	0.14	0.69	0.81
Service expenses	0.00	0.00	0.00	0.08	0.67	0.79
Administrative Expenses	0.32	0.30	0.91	0.74	1.70	1.52
Total Expenditure	0.37	0.56	1.32	1.44	4.07	4.56
EBITDA	0.76	0.87	0.51	0.99	2.68	3.51
Other Income	0.00	0.31	0.38	0.37	0.16	0.51
Interest	0.11	0.18	0.23	0.22	0.23	0.62
PBDT	0.65	1.00	0.66	1.14	2.61	3.39
Depreciation	0.66	0.59	0.61	0.74	0.98	0.77
SKS profit	0.00	0.00	0.00	0.00	0.19	0.00
NPBT	-0.02	0.41	0.05	0.41	1.82	2.63
Current Tax	0.00	0.03	0.00	0.10	0.62	1.02
Deferred Tax	-0.01	0.09	0.09	-0.04	-0.05	0.00
Fringe Benefit Tax	0.00	0.00	0.00	0.00	0.01	0.02
Profit before EO	-0.01	0.29	-0.04	0.35	1.24	1.59
EO	0.00	0.00	0.00	0.17	0.04	0.00
Net Profit after EO	-0.01	0.29	-0.04	0.52	1.29	1.59
EBITDA margin	67.2%	60.9%	27.9%	40.9%	39.7%	43.5%
NPM	-1.2%	20.1%	-2.3%	21.4%	19.1%	19.7%
EPS	-0.17	2.28	-0.34	2.60	6.43	1.51
Book value (Rs)	15.10	15.43	15.09	16.33	75.55	15.84

Balance Sheets

(RsCr)

As at,	31.03.03	31.03.04	31.03.05	31.03.06	31.03.07	31.12.07
Sources of funds						
Share Capital	0.78	1.25	1.25	2.00	2.00	10.54
Share Capital Advance	0.00	0.00	0.00	0.11	5.09	0.00
Reserves and Surplus	0.40	0.68	0.64	1.16	8.02	6.16
Total Shareholders funds	1.18	1.93	1.89	3.27	15.11	16.70
Secured Loans	1.99	1.68	2.44	2.24	6.90	7.40
Unsecured Loans	0.83	0.70	0.79	1.24	0.42	0.20
Total debt	2.82	2.38	3.22	3.48	7.32	7.60
Misc. Expenditure	0.00	0.00	0.00	0.00	0.05	0.26
Total liabilities	4.00	4.30	5.11	6.75	22.37	24.04
Application of funds						
Gross Block	6.07	6.32	7.81	8.47	20.94	23.08
Depreciation	1.48	2.06	2.68	2.63	3.53	4.30
Net Block	4.60	4.25	5.13	5.84	17.41	18.79
Capital Work in Progress	0.00	0.00	0.00	0.00	0.42	0.81
Curr. Assets, Loans and Adv.						
Inventory	0.00	0.00	0.03	0.03	0.38	0.77
Sundry Debtors	0.00	0.00	0.00	0.00	0.10	0.29
Cash & Bank balances	0.04	0.05	0.09	0.25	0.61	0.97
Loans And Advances	0.15	0.35	0.27	1.27	4.77	4.60
Total Current Assets	0.18	0.40	0.39	1.55	5.86	6.63
Current Liabilities	0.73	0.18	0.12	0.34	0.48	0.87
Provision	0.00	0.03	0.06	0.11	0.72	1.19
Net Current Assets	-0.55	0.19	0.21	1.09	4.67	4.57
Deferred Tax Liabilities	0.05	0.14	0.23	0.18	0.13	0.13
Total Assets	4.00	4.30	5.11	6.75	22.37	24.04

Keynote Capitals Ltd.

Member

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