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## Rating Rationale for Rama Medicares Limited's IPO Grading

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**Rama Medicares Limited**

**IPO Grading: BWR IPO Grade 3  
(Average Fundamentals)**

Brickwork Ratings (BWR) has assigned BWR IPO Grade 3 to the proposed IPO of Rama Medicares Limited (RML). Brickwork Ratings' BWR IPO Grade 3 indicates average fundamentals for the issue in relation to the other listed equity securities in India. BWR assigns IPO grades on a scale of IPO Grade 5 to IPO Grade 1, with Grade 5 signifying strong fundamentals and Grade 1 poor fundamentals of the issue in relation to the other listed equity securities in India.

The grading factors the experience of the members of RML's Board, recognition of 'Rama' brand in and around Kanpur city, growth prospects in the niche market segment in which RML operates and growth prospects for the healthcare industry. The grading is constrained by RML's exposure to related party transactions, the number of legal cases against the company, a demanding timeframe for completion of the proposed project and the absence of debt in the funding mix. The project has not been appraised by a bank or term lending institution and project cost has been estimated by the company management.

### **Company Profile:**

Rama Medicares Limited (RML) is part of the Rama Group. Based in Kanpur, the group has interests in the fields of healthcare, education and construction. RML is promoted by Dr. B.S. Kushwah and Dr. Suraj. The company was incorporated in 1995, as Rama Medicares Private Limited and was converted into a public limited company in 2003.

From 1996 to 2005, RML was in the business of leasing medical equipment such as Defibrillator with accessories, autoclaves, cell analysers, respirators etc. to Rama Educational Society (RES) - a trust founded by Dr. B.S. Kushwah. RES provides educational facilities in the Medical, Dental, Paramedical, Engineering and Business Administration fields and is the owner of the Rama hospitals in Mandhana and Lakhanpur areas of Kanpur.

In 2005 RML undertook the management of 100 beds on a license basis, at the Lakhanpur Hospital of RES. In 2007, it also undertook the management of 150 beds at RES's Mandhana Hospital. The company has recently set up a fully owned multi-specialty 150 bed facility named 'Rama Satellite Hospital' at Shivrajpur, Kanpur. General Surgery, Orthopedic Surgery, Nephrology, Pediatrics, Gynaecology and Obstetrics are some of the services provided at RML. The company owns and operates four 24-hour retail pharmacy outlets within these hospitals. RML now proposes to set up a 300-bed Cancer and Cardiac hospital at Mandhana, Kanpur.

### **Shareholding pattern**

Rama Medicare is a closely held company. 95.70% of the shares of the company are held by the Kushwah family and group companies.

**Table 1: Shareholding pattern of Rama Medicares Limited**

<b>Shareholding pattern</b>		
<b>Shareholder</b>	<b>No. of shares held</b>	<b>% holding</b>
Dr. B.S.Kushwah	4,771,203	30.48%
S.V. Mega Structures Ltd.	3,383,334	21.62%
Dr. Suraj	2,408,518	15.39%
Mrs. Rama Kushwah	2,277,282	14.55%
Dr. Anu Kushwah	1,257,534	8.03%
B.S.Kushwah - HUF	533,334	3.41%
Sunlife Financial Services Pvt. Ltd	500,000	3.19%
Maverick Edusolutions (India) Pvt. Ltd.	203,175	1.30%
ABM Constructions Pvt. Ltd.	166,666	1.06%
Roudolph Pharmaceuticals Pvt. Ltd.	144,445	0.92%
Others	5,928	0.04%
	<b>15,651,419</b>	<b>100.00%</b>

Source: DRHP

An aggregate of 20% of the post-Issue equity capital of the Company, held by the Promoters shall be locked in for a period of three years from the date of Allotment in the Issue, which as per SEBI guidelines will be considered as Promoters' Contribution.

### **Board of Directors:**

The board of directors of RML consists of 4 Executive Directors and 4 Independent Directors.

**Dr. B.S.Kushwah** (53 years) is the Chairman and Managing Director of RML. He is a Bachelor of Dental Surgery, and served in the Indian Military between 1975 and 1985. He has over 25 years of experience in healthcare related areas. Dr. Kushwah established Rama Dental Clinic in 1986, which has grown to become Rama Dental College, and functions under Rama Educational Society.

**Dr. Suraj** (29 years) is the co-promoter and Managing Director of RML. He oversees management of the various colleges established under Rama Educational Society, and the companies operating under the "Rama Group". He is also the Treasurer of the RES.

**Mrs. Rama Kushwah** (48 years) is a Whole time Director. She oversees the administration of RML's hospitals and is also the secretary of RES.

**Ms. Anu Kushwah** (26 years) is a Whole Time Director of RML and oversees the operations of the company's hospital and the retail pharmacy stores.

**Mr. Jagannath Pal** (61 years) is an Independent Director. He holds a PG degree in Arts, a Law degree and a PG Diploma in Criminology. He has served as Special Secretary to the Govt. of UP and has also held various senior positions in the Education Department.

**Mr. Tilak Raj Joshi** (62 years) has over 35 years' experience in various banking areas. He is a Commerce graduate, a member of the ICWA and CAIIB from Indian Institute of Bankers, Mumbai. He has held several senior positions at Bank of India.

**Dr. Raghunandan Prasad Pathak** (74 years) is an M.B.B.S and holds a Diploma in Leprosy. He began his career as house surgeon in Ophthalmology. He is presently the Medical Superintendent of a hospital in Kanpur and has earlier also served as Chief Medical Superintendent.

**Mr. Ashwani Kumar Dubey** (42 years) holds degrees in Commerce and Law. He has 19 years' experience in the field of Corporate Finance, and Taxation. In the year 1991 he started his proprietary concern, A.K. Dubey & Company.

#### Objectives of the Issue:

RML plans to set up a 300 bed super-specialty cancer and cardiac hospital at Mandhana, Kanpur. The total project cost of ₹ 95.71 crores will be funded by IPO proceeds to the extent of ₹ 85 crores and internal accruals of ₹ 10.71 crores. The funds will be utilized as shown in Table 2. The company does not intend to use IPO proceeds for working capital purposes.

**Table 2: Project Funding Requirement & Sources of Funds**

<b>Requirement of Funds</b>	<b>Rs. Cr.</b>	<b>Rs. Cr.</b>
Buildings	28.42	
Equipments & Furniture	56.95	
Other Fixed Assets	5.34	90.71
Issue Expenses		5.00
<b>Total</b>		<b>95.71</b>
<b>Sources of Funds</b>		<b>Rs. Cr.</b>
IPO proceeds		85
Internal Accruals		10.71
<b>Total</b>		<b>95.71</b>

Source: DRHP

**Table 3: Project Implementation Schedule**

<b>Schedule of Implementation</b>		
<b>Work Item</b>	<b>Commencement</b>	<b>Completion</b>
Purchase of Land	Already Completed	
Site Development	Already Completed	
Construction of Building	January, 2011	August, 2011
Order of Equipments	February, 2011	March, 2011
Delivery and Installation	June, 2011	August, 2011
Commencement of Operation*	August, 2011	

\* The proposed implementation is subject to receipt of all statutory licenses and approvals required for commencing the operations. Source: DRHP

The project is at a very initial stage, as the project is being funded primarily by IPO proceeds. Land for the project has already been acquired and site development completed. Orders for equipment have not yet been placed. Although RML aims for commencement of operations of the cancer & cardiac hospital by August 2011, we believe completion could take longer.

Project appraisal has not been carried out by any bank on term lending institution and is based on management estimates. The deployment of funds for the projects is therefore, entirely at the discretion of the company.

### **Corporate Governance:**

Rama Medicares Limited is compliant with the provisions of Clause 49 of the Listing Agreement. There are currently 8 Directors on the Board of RML, of which 4 are Independent Directors.

The Audit committee, Remuneration Committee and Shareholders'/ Investor Grievances Committee are chaired and comprised entirely of Independent Directors.

RML is exposed to a number of related party transactions through its business model of leasing and operating hospital wards in Rama Education Society, as both entities are owned by the same people. The Lease agreement is for a term of 11 months, which is renewed annually by RES and therefore, RML is exposed to the risk of non-renewal of the lease. RML has used the services of a group company – S. V. Mega Structures Ltd. – for the construction of the Satellite hospital at Shivrajpur. The cancer and cardiac hospital project is also proposed to be executed through S.V. Mega Structures Ltd, a group company promoted by the Kushwaha.

### **Industry Analysis:**

The Indian health care sector has emerged as one of the largest sector for India in terms of revenue and employment generation. The size of the sector is estimated to grow from approximately US\$ 40 billion in 2010, to around US\$ 78.6 billion in 2012. It is expected that an increase in the revenue per bed as well as an increase in the number of beds in 2012 will result in a rise in sales by around 19.8%; while in 2013 it will rise by around 20.5%.

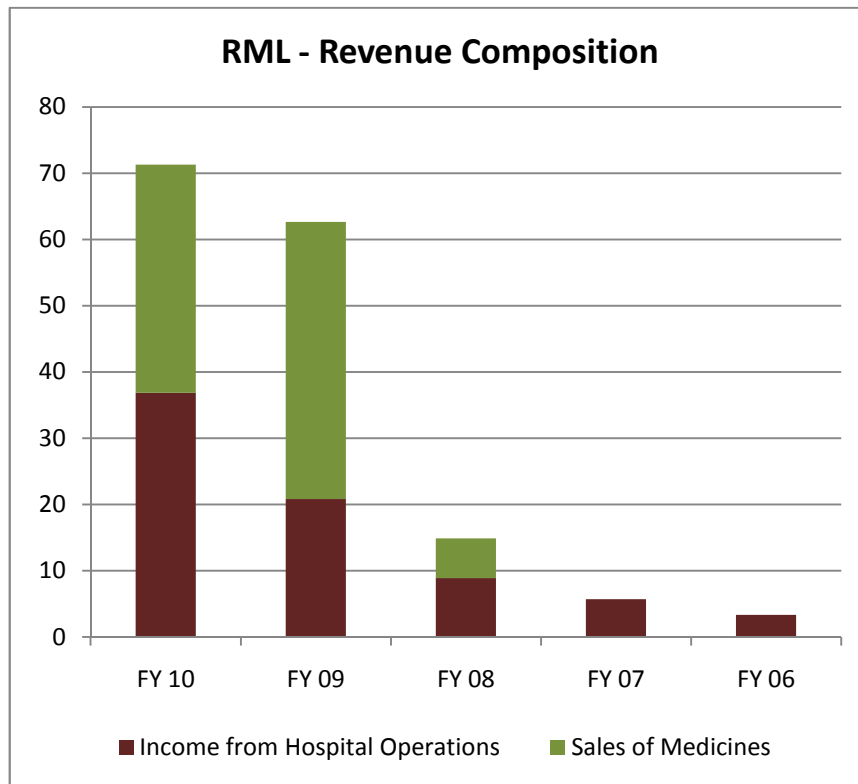
The rural healthcare sector is also on an upsurge. The Rural Health Survey Report 2009, released by the Ministry of Health, stated that during the last five years rural health sector has seen an addition of around 15,000 health sub-centres and 28,000 nurses. It is expected that India would require another 1.75 million beds by the end of 2025 to meet its healthcare needs. Considering the upsurge in demand many hospitals have proposed to increase their capacity. It is estimated that by March 2012, projects worth ₹6,725 crores would be completed, resulting in an addition of approximately 14,221 beds.

#### **Government Initiatives:**

- In the Union Budget 2010-11, the Finance Minister, Mr. Pranab Mukherjee increased the plan allocation for Ministry of Health and Family Welfare from US\$ 4.2 billion in 2009-10 to US\$ 4.8 billion in 2010-11.
- Government launched the National Rural Health Mission (NRHM) in 2005. It aims to provide quality healthcare for all and increase the expenditure on healthcare from 0.9 per cent of GDP to 2-3 per cent of GDP by 2012.

In future, increase in affordability of premium quality healthcare due to the increase in per-capita income, exposure to global trends and standards, increasing prevalence of corporate healthcare plans in line with growth of the domestic workforce and increasing penetration of health insurance, the Indian healthcare industry is expected to see an upward trend.

### Financial Performance:



Income from Operation is comprised of revenue from Hospital operations and Sale of medicines. Total sales have increased from ₹ 3.37 Cr in FY06 to ₹ 71.29 Cr in FY10, reflecting a CAGR of 84%. However, y-o-y income growth has been high in FY08 (162%) and FY09 (321%) and has declined sharply in FY10 to 14%. This movement was largely due to their retail pharmacy business which the company entered in FY08, and exited in FY10.

Sale of medicines has contributed significantly to Total Income, accounting for as much as 40% of revenues in FY08 and 67% of revenues in FY09. The

company re-aligned the pharmacy business in FY10, reducing the number of stores to 4. These outlets are located within their hospital premises and operate on a 24X7 basis. Sale of medicines contributed about 48% of revenues in FY10. Income from operations has increased steadily on the back of capacity additions.

The major items of expenditure, as a percentage of Net Sales include purchases (44%), hospital expenses (33%), administrative costs (5.6%) and staff costs (3.5%).

Profit after Tax (PAT) has grown from ₹ 1.12 crores in FY06 to ₹ 5.03 crores in FY10. Year on year growth percentages reflect the trend noted above, rising 77% in FY08 and 117% in FY09 and declining to 19% in FY10. RML has a healthy interest cover of 4.31 times and a Current ratio of 2.28. Its debt / equity ratio stands at 1.44 times, as against 0.61 times in the previous year. This is due to a corporate guarantee of ₹ 195 crores given by RML to RES for its term loan, which forms a significant contingent liability on the books of RML.

### Litigation

There are several legal cases pending against the company and the promoters, which in the event of unfavourable decisions could have an adverse impact on the company's operations and financial performance.

**Table 4: Rama Medicares Limited - Statement of Profit or Loss (in ₹ Crs)**

	FY 10	FY 09	FY 08	FY 07	FY 06
<b>INCOME</b>					
Income from Hospital Operations	36.85	20.85	8.88	5.69	3.37
Sales of Medicines	34.44	41.80	6.01	0.00	0.00
<b>Total Income from Operations</b>	<b>71.29</b>	<b>62.65</b>	<b>14.89</b>	<b>5.69</b>	<b>3.37</b>
<b>EXPENDITURE</b>					
Purchases	31.34	36.00	4.87	0.00	0.00
Staff Costs	2.50	3.58	2.56	1.52	0.24
Hospital Expenses	23.54	10.79	2.44	1.81	0.66
Administration Expenses	3.97	3.91	2.21	0.48	0.48
	<b>61.35</b>	<b>54.28</b>	<b>12.08</b>	<b>3.81</b>	<b>1.38</b>
<b>EBITDA</b>	<b>9.94</b>	<b>8.37</b>	<b>2.81</b>	<b>1.88</b>	<b>1.99</b>
Depreciation	1.13	1.06	0.69	0.41	0.39
<b>EBIT</b>	<b>8.81</b>	<b>7.31</b>	<b>2.12</b>	<b>1.47</b>	<b>1.60</b>
Financial Expenses	2.03	1.75	0.63	0.08	0.00
Other Income	0.59	0.86	1.52	0.51	0.24
<b>Profit Before Tax</b>	<b>7.37</b>	<b>6.42</b>	<b>3.01</b>	<b>1.90</b>	<b>1.84</b>
Less: Tax	2.34	2.19	1.06	0.80	0.72
<b>Profit After Tax</b>	<b>5.03</b>	<b>4.23</b>	<b>1.95</b>	<b>1.10</b>	<b>1.12</b>

**Table 5: Key Financial Indicators**

	FY 10	FY 09	FY 08	FY 07	FY 06
Total Sales	71.29	62.65	14.89	5.69	3.37
Net Worth	24.98	19.96	14.26	11.00	8.33
Borrowings	16.39	12.13	9.44	1.27	0.02
Net fixed assets	30.16	16.63	11.38	5.61	4.92
EBDITA	9.94	8.37	2.81	1.88	1.99
PAT	5.03	4.23	1.95	1.10	1.12
OPM (%)	13.94%	13.36%	18.87%	33.04%	59.05%
NPM (%)	7.06%	6.75%	13.10%	19.33%	33.23%
Fixed Asset Turnover	2.36	3.77	1.31	1.01	0.68
RONW	20.14%	21.19%	13.67%	10.00%	13.45%
ROCE	18.62%	25.45%	11.34%	13.49%	-
Current Ratio	2.28	4.25	3.83	-	-
Debt Equity ratio	1.44	0.61	0.66	0.12	0.00
Interest Cover	4.31	4.41	3.98	13.45	56.70
Networth per share	15.96	13.17	11.89	10.96	11.45
Total number of shares	15651419	15151419	11988741	10035866	7273600

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