

Pratik Prajapati
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Issue Details

Issue Details	
Issue Size (Value in Rs. million, Upper Band)	15,808
Fresh Issue (No. of Shares in Lakhs)	51.66
Offer for Sale (No. of Shares in Lakhs)	240.01
Bid/Issue opens on	27-Apr-22
Bid/Issue closes on	29-Apr-22
Face Value	Rs. 10
Price Band	516-542
Minimum Lot	27

Objects of the Issue

The Fresh Issue: ₹ 2,800 Million

- Early redemption of NCDs issued by our Company to CDC Emerging Markets Limited ("CDCEML"), one of our Group Companies, in full
- Capital expenditure towards setting up of new hospitals and purchase of medical equipment for such new hospitals;
- General Corporate Purposes

Offer for Sale: ₹ 13,008 Million

- The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
Kotak Mahindra Capital Company Limited
J.P. Morgan India Private Limited
IIFL Securities Limited
Registrar to the Offer
KFin Technologies Limited

Capital Structure (₹ Million)	Aggregate Value
Authorised share Capital	1390.5
Subscribed paid up Capital (Pre-Offer)	963.3
Paid up capital (Post - Offer)	1015.0

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	62.2	49.8
Public	37.8	50.2
Total	100	100

Financials

Particulars (Rs. In Mn)	9MFY22	FY21	FY20	FY19
Revenue from operations	7613.1	6500.5	7193.9	5427.9
Operating expenses	5045.7	4872.1	5223.6	3942.8
EBITDA	2567.4	1628.3	1970.3	1485.1
Other Income	127.5	102.6	103.5	83.5
EBIDT	2694.9	1731.0	2073.7	1568.7
Interest	369.25	440.6	446.1	390.2
Depreciation	609.81	733.4	694.1	603.2
PBT	1715.9	557.0	933.6	575.3
Tax	451.74	161.3	380.2	129.4
Consolidated PAT	1264.1	395.7	553.4	445.9
EPS	13.1	4.25	5.92	4.74
Ratio	9MFY22	FY21	FY20	FY19
EBITDAM	33.7%	25.0%	27.4%	27.4%
PATM	16.6%	6.1%	7.7%	8.2%
Sales growth	56.6%	-9.6%	32.5%	

Company Description

Rainbow Children's Medicare Limited ("RCML") is a leading multi-specialty pediatric and obstetrics and gynecology hospital chain in India, operating 14 hospitals and 3 clinics in 6 cities, with a total bed capacity of 1,500 beds, as of December 31, 2021. RCML had the highest number of hospital beds amongst comparable players in the maternity and pediatric healthcare delivery sector, as of March 31, 2021. Their core specialties are pediatrics, which includes newborn and pediatric intensive care, pediatric multi-specialty services, pediatric quaternary care (including multi organ transplants); and obstetrics and gynecology, which includes normal and complex obstetric care, multi-disciplinary fetal care, perinatal genetic and fertility care.

RCML established their first pediatric specialty hospital in 1999 in Hyderabad. Since then, under the leadership of Dr Ramesh Kancharla, the founding Promoter, they have established their reputation as a leader in multi-specialty pediatric services, with strong clinical expertise in managing complex diseases. They have also expanded their operations to include obstetrics and gynecology services, whereby they offer comprehensive perinatal services to patients. Currently, 5 of their hospitals are accredited by NABH and 3 of their hospitals are certified by EDGE.

RCML offers a comprehensive range of healthcare services for children from birth all through their childhood and adolescent years. Since their inception, they have strived to provide the best services for children requiring super specialty care in a child-friendly environment. They are one of the few pediatric focused hospital chains in South India. RCML operates a total of 14 hospitals and 3 clinics, 5 of which are NABH-accredited and 3 of which have received EDGE certification.

In recent years, RCML has expanded their hospital network and increased their bed capacity from 1,162 beds as of March 31, 2019 to 1,500 beds as of December 31, 2021. Over the same period, they increased the number of hospitals from 10 to 14. Going forward, they may seek to expand their hospital network through the acquisition of brownfield assets or development of Greenfield assets (depending upon the location of the hospital and the timelines to complete the project).

Valuation

The Indian healthcare delivery system has seen consolidation in recent years. A highly competitive industry, coupled with tightening of healthcare regulations, has made it difficult for smaller players in the industry to stay profitable. Larger hospital brands typically have stronger financial discipline and negotiating power with suppliers, better ability to attract medical talent, and greater capital and administrative resources to meet these needs over standalone hospitals.

Rainbow Children's Medicare is leading pediatric multi-specialty healthcare chain with strong clinical expertise in managing complex diseases. The company has the ability to conceptualize, create and operate specialized children's hospitals. At the upper end of the IPO price band, the company is offered at 32.6x its FY22 annualized earnings, with a market cap of ₹ 55,013 million, which we believe is quite reasonable then its other listed peers. The company has a robust track record of performance and has been generating positive cash flow. We are positive on the long-term prospects of the Company. Hence, we recommend a "Subscribe-Long Term" rating to this IPO.

Their ability to recruit and retain high caliber medical professionals has been integral to the success of their business. They follow a doctor engagement model whereby most of their core specialists work exclusively at their hospitals on a full-time retainer basis. This model ensures that most of the core specialists are available 24/7 on a roster basis at their hospitals, which is particularly important for children's emergency, neonatal and pediatric intensive care services. As of December 31, 2021, they had 641 full-time doctors and 1,947 part time/visiting doctors. A number of their doctors in neonatal, pediatric intensive care, pediatric sub specialties, obstetrics and gynecology are trained or possess qualifications from the United Kingdom, United States, Canada and Australia, which provides them with a competitive advantage.

In recent years, they have expanded their hospital network and increased bed capacity from 1,162 beds as of March 31, 2019 to 1,500 beds as of December 31, 2021. Over the same period, they increased the number of hospitals from 10 to 14. They have approached their network expansion with financial prudence and have been disciplined when making financial decisions for capital investments. All their capital investments are carefully deliberated and approved by their experienced Board. Their ability to keep capital expenditure at economical levels has been an important factor in driving their growth in a profitable manner in prior periods. They also plan to increase the scale of their reach to patients through a robust digital ecosystem. In the period from April 1, 2020 to March 31, 2021, driven in part by the movement restrictions arising out of the COVID-19 pandemic, they conducted over 125,000 outpatient video consultations through their video consultation platform.

KPIs	Nine Months Ended December 31,	Financial Year Ended March 31,		
		2021	2020	2019
Bed Capacity	1,500	1,475	1,296	1,162
Operational Beds	1,150	1,132	1,001	931
Occupancy rate (%)	46.18%	34.23%	56.27%	54.13%
Inpatient volume	51,075	51,165	66,871	53,422
Outpatient volume	615,438	624,111	941,049	787,345
Number of full-time doctors	641	593	596	498
Number of nurses	1,586	1,169	1,485	1,401
ARPOB (₹)	12,636,661	14,925,896	10,715,405	9,744,124
ARPOB/Day (₹ per day)	45,951	40,893	29,277	26,696
ALOS (days)	2.85	2.57	3.05	3.20
Basic EPS (₹)	13.39	4.36	5.98	4.83
RoE	21.29%	8.82%	13.52%	11.98%
RoCE	22.06%	10.48%	16.32%	11.68%

Strengths:

➤ **Their ability to conceptualize, create and operate specialized children's hospitals**

The company specializes in pediatric care and the ability to conceptualize, create and operate children's hospitals are critical to their success. Their founding Promoter and senior consultants, who were trained in children's hospitals in the United Kingdom, United States, Canada and Australia believe that a children's hospital requires a children centric approach towards making the atmosphere congenial and enabling faster healing of children suffering from acute or prolonged illness. This is one of the key factors that they focus on as they conceptualize and build all their hospitals. They allocate a significant proportion of their capital expenditure towards the interiors of their hospitals in order to make the environment congenial for children.

One of the biggest differentiators of their hospital from adult hospitals is the children centric atmosphere. Their children's hospitals are made vibrant and visually appealing, with bright and congenial interior decoration. Each of their hospitals also has a designated child play area and other entertainment in the patient rooms which comforts the children recovering from treatment. Further, a children's hospital requires focus on psychological and emotional care, which is different from adult hospitals, and they keep this understanding at the forefront while treating children. They believe that doctors, nurses and other hospital staff need to be soft and gentle while dealing with children and that is manifested in all the aspects of their healthcare delivery.

➤ **Leading pediatric multi-specialty healthcare chain with strong clinical expertise in managing complex diseases**

They are one of India's largest multi-specialty pediatric care providers (based on hospital beds, as of March 31, 2021), with a presence across various specialties such as neurology, nephrology, gastroenterology, oncology and cardiology. They have built a comprehensive pediatric critical care program and have consistently allocated approximately one-third of their operational beds at all their hospitals to critical care. In addition, they have established advanced neonatal and pediatric intensive care services across their hospitals. They provide complex multi-specialty tertiary intensive care at their hub hospitals, which provides them with a significant competitive advantage. They are classified as a standalone pediatric multi-specialty hospital chain and one of the few pediatric focused hospital chains in south India. Their leadership position in pediatrics, especially in relation to complex diseases, provides them with a significant competitive advantage.

➤ **Comprehensive perinatal care provider, with synergies between pediatric and obstetrics and gynecology services**

In the initial years of their corporate history, they were focused on establishing their capabilities and reputation as a leading provider of pediatric care. As their pediatric operations grew, they realized that many pregnancies require deliveries in a comprehensive perinatal ecosystem, to address incidents of high-risk pregnancies, babies requiring immediate surgical interventions and other neonatal interventions right after birth. As a result, they leveraged their Rainbow brand, which was already well recognized in pediatrics, to expand into obstetrics and gynecology in 2007 and offer comprehensive perinatal services. Their ability to offer integrated pediatric, along with their obstetric and gynecologic services, enables them to provide very effective and cost-efficient one-stop healthcare solutions to families.

They believe this is largely attributable to the synergies between their pediatric care and their obstetrics and gynecology services. Their perinatology division (covering maternal medicine, obstetrics, fertility, fetal medicine and neonatology) has worked cohesively over the years to optimize outcomes in many high-risk pregnancies such as multiple pregnancies, extreme prematurity, surgically correctible fetal anomalies and growth restrictions. This robust model of care has made a huge positive impact on outcomes for the patients. In 2015, as an acknowledgement of the success and rapid growth of this discipline, they rebranded their perinatal division as "Birth Right by Rainbow".

➤ **Hub-and-spoke model that provides synergies and ensures better care and access for patients**

The company has successfully executed a hub-and-spoke model at Hyderabad, Telangana with their Banjara Hills hospital (comprising 250 beds) being the hub that is complemented by four spokes at four locations in Hyderabad, Telangana namely Secunderabad, LB Nagar, Kondapur and Hydernagar. At their hub hospital, they provide comprehensive outpatient and inpatient care with a focus on tertiary and quaternary care and, at their spokes, they provide secondary care in pediatric, obstetrics and gynecology and emergency services. Under this model, their super-specialty doctors based at their hub hospital are able to reach out to the larger community and cover a larger catchment area. This model has enabled them to evolve over the past two decades from a single secondary care hospital in Hyderabad, Telangana to six hospitals in the city and as an established provider of tertiary and quaternary care services at their hub hospitals.

➤ **Proven ability to attract, train and retain high-caliber medical professionals**

The pediatric healthcare market in India faces challenges in relation to sourcing and retaining quality pediatric doctors. Hence, their ability to attract, train and retain seasoned doctors and other medical professionals has been a significant contributor to their growth and is critical to their future business prospects. Over the years, they have been able to attract and retain high quality medical professionals by offering them challenging and rewarding career options and growth trajectories. Their established reputation, professional approach, sound training systems and appealing career development opportunities are attractive to medical professionals. They follow a doctor engagement model whereby most of their core specialists work exclusively at their hospitals on a full-time retainer basis. This model ensures that most of their core specialists are available 24/7 on a roster basis across their hospitals, which is particularly important for children's emergency and neonatal and pediatric intensive care services.

As of December 31, 2021, they had 641 full-time doctors and 1,947 part time/visiting doctors. They believe that their full-time doctor model along with a strong middle grade doctor pool ensures seamless healthcare delivery and has resulted in a high degree of patient satisfaction. A number of their doctors in neonatal, pediatric intensive care, pediatric sub-specialties, obstetrics and gynecology are trained or possess qualifications from the UK, US, Canada and Australia, which provides them with a competitive advantage. They enter into retainership contracts with their newly hired doctors covering the initial two to three year periods, which provides them with stability and makes the company a desirable workplace. They have successfully adopted the doctor engagement model across their hospital, which has led to a high degree of full-time doctor retention (at 81% for the period from April 1, 2019 to March 31, 2021).

➤ **Strong track record of growth, operational and financial performance**

They have grown their bed capacity from 50 beds in a single hospital in 1999 to 1,500 beds across 14 hospitals as of December 31, 2021. During their first decade of operations, they focused on creating the right treatment protocols, right doctor engagement model and the appropriate business model. Post this phase, they focused on growing the number of hospitals and bed capacity at the hospitals. Over the last six years, they have added 985 beds across 10 hospitals and have expanded their presence from two cities to six cities. They have followed a financially disciplined model, focusing on cost-effective growth. All their capital investments are carefully deliberated and approved by their experienced Board of Directors. Going forward, they may seek to expand their hospital network through the acquisition of brownfield assets or development of greenfield assets, in order to add capacity in a cost effective and timely manner, they have a network of selected vendors (such as architects and project management consultants) and have also built their in-house capital expenditure procurement and projects teams. They have delivered strong operating and financial performance across their hospital network. From their past experience, for every new region that they enter into, its first hospital which is a hub typically incurs cash losses for the first few years. Given the growth witnessed in their existing projects, coupled with their strategy of phasing out new projects, they have been able to deliver continuous profitability.

Key Strategies:

➤ **Strengthen tertiary and quaternary pediatric services in their existing hospitals**

Based on their 22 years of experience in operating pediatric hospitals providing tertiary newborn, pediatric intensive and pediatric sub specialty care, there is great opportunity for them to expand their quaternary care operations. At their hub at Banjara Hills in Hyderabad, Telangana, they commenced providing pediatric quaternary care services in 2019. They plan to build similar capabilities in their hospitals in Bengaluru, Karnataka, Chennai, Tamil Nadu and New Delhi- NCR. Further, Rainbow Children's Heart Institute is a 110-bed standalone pediatric cardiac center that treats children's cardiac problems. They plan to develop similar cardiac capabilities in Bengaluru, Karnataka, Chennai, Tamil Nadu and New Delhi-NCR, by hiring reputed, experienced and skilled cardiac specialists in these cities. They also plan to invest in specialized medical infrastructure such as cath labs, pediatric cardiac OT and echocardiogram machines, which will enhance their capabilities in treating cardiac patients. They also regularly conduct "outreach clinics" where their multispecialty pediatric doctors visit these areas and provide outpatient clinic services. At such outpatient clinics, sicker patients needing inpatient care are advised to visit their hospitals for further treatment. This helps them building deeper relationship with the community.

➤ **Further grow their comprehensive perinatal services offered under "Birthright by Rainbow"**

The company started their perinatal services in 2007 by providing comprehensive perinatal care which was backed by teamwork, round the clock availability of obstetricians, anesthesiologists, neonatologists and maternal intensive care services. They endeavor to make the

birthing experience safe for both the mother and baby. They have built the full spectrum of obstetrics, gynecology, fetal medicine and fertility care services. "Birthright by Rainbow", their perinatal offering, is well-known for dealing with high-risk pregnancies and has established professional connections with city and district obstetricians to refer high-risk pregnancies to their hub hospitals, thereby strengthening their high-risk pregnancy services. They plan to offer services including assessment of fetal well-being to guide district patients by partnering with their obstetricians.

Their delivery volume has grown from 10,632 deliveries in the financial year 2019 to 12,582 and 13,287 in the financial years 2020 and 2021, respectively, recording a CAGR of 11.79%. Their delivery volume for the nine months ended December 31, 2021 was 10,826. As a result of their unique full-time doctor engagement model and teamwork, approximately 85.00% of their deliveries are done by fulltime in-house doctors. Going forward, they are focused on providing comprehensive obstetrics and gynecology services at all their current and future hospitals, which will help them in enhancing their patient and revenue base. They also plan to increase their focus on training and increase their intake of DNB and fellowship programs in obstetrics and fetal medicine. This would increase their pool of middle grade doctors specializing in obstetrics and gynecology. They further plan to expand their service offering by introducing concepts such as trained midwifery in their hospitals.

➤ **Grow their presence through hub and spoke networks across key geographic clusters and new locations**

They have successfully created a hub and spoke model in Hyderabad, Telangana through their network of a hub hospital in Banjara Hills, Hyderabad, Telangana supported by four spokes spread across the city. This model provides patients access to multidisciplinary level 4 neonatal and pediatric intensive care and pediatric subspecialty care at the hub hospital while at the same time providing access to 24/7 emergency, pediatric secondary and tertiary care and full spectrum of obstetrics and gynecology closer to home at the spokes. They plan to replicate this model across key cities and regions in the country. In particular, they plan to add additional spokes at Hyderabad, Telangana Bengaluru, Karnataka, New Delhi-NCR and Chennai, Tamil Nadu. They also plan to increase the capacity of their hubs in New Delhi-NCR and Bengaluru, Karnataka. Further, they are also exploring options to grow organically in newer locations in Andhra Pradesh and Tamil Nadu. In addition, they are also exploring opportunities to expand in north east India and in neighboring countries. From time to time, they will also consider inorganic growth opportunities.

➤ **Initiatives to drive performance efficiencies**

They will continue to explore means to enhance performance efficiencies to reduce the cost of healthcare delivery so as to make it affordable for patients, and also contribute to the growth in their profitability. In this regard, they seek to streamline their procurement processes by focusing on

- (a) Centralized and standardized procurement of medical equipment, consumables and pharmaceuticals
- (b) Leveraging the scale of their operations for more economical sourcing
- (c) Using technology to have real time visibility, assess supplier performance and access other relevant information.

They constantly strive to increase the capacity utilization at all their hospitals by increasing their day care admissions. They also plan to further reduce the length of hospital stays as their surgical work is trending towards minimally invasive surgeries, which they believe will have a beneficial impact on their key operational parameters.

➤ **Digital healthcare initiatives to address patient convenience, operational efficiencies and expand reach**

Their digital strategy is focused on enabling them to provide customized healthcare services for their target customers as well as to digitize processes to significantly improve the in-hospital customer experience. As they operate in children and women care, their customers include young independent professionals who are technology savvy as they have the opportunity to build a deep lasting relationship with such customers spanning from conception to adolescence using digital initiatives. Their "Rainbow Children's Hospital" mobile application is one of the core aspects of their digital strategy. The application enables patients to book appointments, make payments, order drugs for home delivery, download investigation reports and receive alerts on essential services. They are in the process of implementing an AI-enabled content management engine to support the application, which will be able to process large amounts of patient data to provide them with insight into patient needs.

Industry Snapshot:

India's current healthcare expenditure has decreased from 2013 to 2018. India's spending on healthcare is very low, and almost 55% of spending is out-of-pocket expenditure ("OOPE") by the public as of 2019. The high healthcare OOPE is primarily due to under-penetration of healthcare and Insurance services and lower public spending on healthcare.

Further, India's public spending on healthcare services remains much lower than its global peers. For example, India's per-capita total expenditure on healthcare (at an international dollar rate, adjusted for purchasing power parity) was only \$64 in 2019 versus the US's \$10,921, the UK's \$4,313 and Singapore's \$2,634.

➤ **Overview of Maternity and Childbirth in India**

India reports roughly 70,000 live births per day, representing one sixth of the world's child births. This translates to 25-26 million live births per year. India reports 36-37 million pregnancies in a year.

Estimated annual pregnancies

Area	Value	FY 2014-15	FY 2019-20
Estimated number of annual pregnancies	Numbers in millions	37.4	36.6
Pregnant women registered for ANC (reported pregnancies)	% of estimated annual pregnancies 95.5% 97.0% Live births	95.5%	97.0%
Live births	Nos in Million	26.2	25.4

➤ Structure of Healthcare Delivery Industry in India

The healthcare delivery market, consisting of hospitals and diagnostic centers, to account for a major share of the healthcare pie (71%), followed by domestic pharmaceuticals (20%) and medical devices market (9%) as of the financial year 2020.

Classification of hospitals by facilities/services offered

	Primary care	Secondary care	Tertiary care
Services	Provides all services as required for the first point of contact	Provides all services as required, including organised medical research	Provides all services as required, including provision for experimental therapeutic modalities and organised research in chosen specialities
Multi-disciplinary	Yes	Yes	Single- or multi-speciality
Type of service	Only medical services and excludes surgical services	Overall medical and surgical services	Complex surgical services with sophisticated equipment
Type of patient	Only outpatient	Inpatient and outpatient	Primarily inpatient
No of beds	0 beds	50-200 beds	>200 beds
Dependent on	Secondary and tertiary care hospitals for further diagnosis and support	Tertiary care hospital for diagnostic and therapeutic support on referral and for patient transfer	Tertiary care/secondary hospital for referrals for its workload
Investment	Low investment required	Medium	High

➤ Classification based on complexity of ailment

Ailment/ condition	Primary	Secondary	Tertiary
Acute infections	Fever	Typhoid/ jaundice	Hepatitis B,C
Accidents/ injuries	Dressing	Fracture	Knee/ joint replacements / brain haemorrhage
Heart diseases	High cholesterol	Strokes	Cardiac arrest/ heart attacks/ heart transplantation/ heart defects like hole in heart
Maternity	Diagnosis/ check-ups	Normal delivery/ caesarean	Normal delivery/ caesarean/ post-delivery complications such as brain fever
Cancer	Lump diagnosis/ checkups	Tumor - medical, surgical, and radiation therapy	Medical, surgical and radiation therapy

➤ Assessment of India's Hospital Market

The Indian healthcare delivery market to reach ₹5 trillion in value terms by the end of the financial year 2022, with growth being contributed by low base and the pent-up demand from deferred treatments in the financial year 2021. A potential upside is also expected from COVID-19 treatments, especially for hospitals where occupancies were typically on the lower side. Within the overall healthcare delivery market, the IPD is expected to account for nearly 70% (in value terms), while the balance is to be catered by the OPD. Though in terms of volumes, OPD volumes outweigh IPD volumes, with the latter contributing to the bulk of the revenues to healthcare facilities.

As opposed to the financial year 2021, whilst government investments in the sector to combat the COVID-19 pandemic via temporary establishments had gained prominence, and private hospitals saw revenue erosion owing to travel restrictions, the private sector is expected to complement the role of the government in the financial year 2022 early on. With renewed impetus from PMJAY and government focus shifting onto healthcare sector, the healthcare delivery market is expected to grow at 15-17% compounded annual growth rate (CAGR) and reach ₹7.67 trillion in the financial year 2025.

➤ Key Growth Drivers of Healthcare Delivery Industry

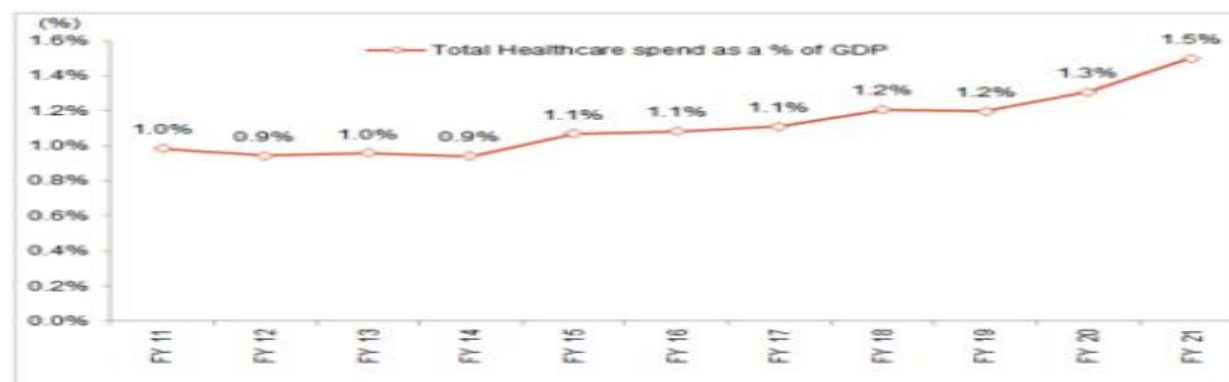
India lags behind global benchmarks in healthcare infrastructure, both in terms of physical infrastructure as well as personnel. However, the picture is bleak even on the healthcare indicators front. In case of life expectancy at birth, which reflects the overall mortality of the population, India stands at 68.8 years in comparison with the global average of 71.4 years. This is despite life expectancy at birth growing at 0.6% CAGR between 2000 and 2017.



- **Government policies to improve healthcare coverage**

The government has raised its healthcare budget for the financial year 2022 to ₹712.7 billion, although the incremental allocation in the financial years 2021 and 2022 is more for COVID-19 related expenditure (emergency aid and vaccination drive). Nonetheless, the focus seems to have shifted from curative aspect to preventive health and well-being under the ambit of holistic healthcare. The long-term goal is to raise its healthcare spending to 2.5% of GDP by 2025 under the National Health policy 2017 from the current 1.3% of GDP.

Public expenditure as a proportion of GDP



- **Rising income levels to make quality healthcare services more affordable**

Though healthcare is considered a non-discretionary expense, considering that approximately 83% of households in India had an annual income of less than ₹0.2 million in the financial year 2012, affordability of quality healthcare facilities remains a major constraint. Growth in household incomes and, consequently, disposable incomes, are critical to the overall growth in demand for healthcare delivery services in India. The share of households falling in the income bracket above ₹0.2 million is expected to increase to 35% in the financial year 2022 from 23% in the financial year 2017. They provide a potential target segment (with more paying capacity) for hospitals.

- **Innovative business models to help penetration in tier II and III cities**

Given that 65% of the population lives in rural areas, the government is incentivizing private investments in these regions. But private players find it difficult to replicate the model that worked for them in tier I and tier II locations, due to the relatively lower revenue per bed in these regions (due to the low paying capacity in these areas and occupancy of existing facilities). CRISIL Research believes that a volume-centric model focusing on secondary and lower level tertiary care segments with tight control on costs will allow private players to enter and be profitable in rural areas, too.

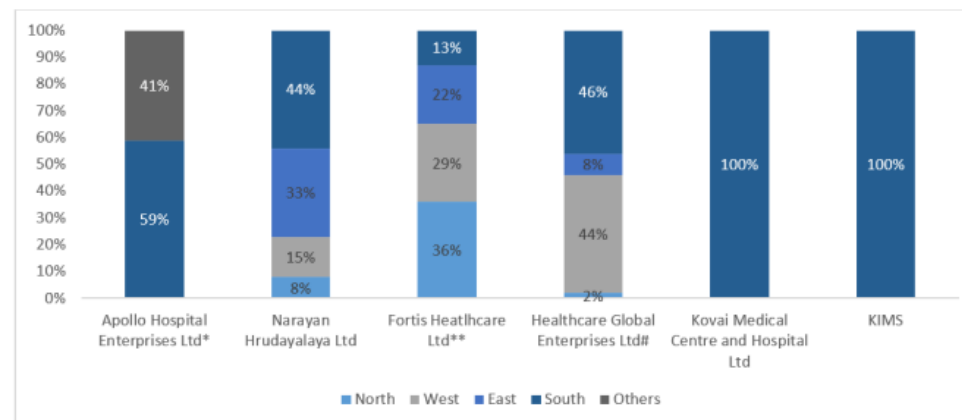
- **Established regional presence gives players an upper hand**

Key listed healthcare delivery players in India have established themselves in regions across the country. Those with regional presence have an added advantage over those that don't.

Some of the key advantages of having regional presence include the following:

1. Understanding the mentality of people (patients)
2. Understanding the mentality of doctors
3. Integrating talent from well-established allied workforce

Regional revenue mix of key listed players as of the financial year 2020



Key Risk:

- They operate in a regulated industry, and compliance with applicable safety, health, environmental, labor and other regulations, or failure to obtain or renew approvals, licenses, registrations and permits, may adversely affect their business, results of operations and cash flows.
- If they are unable to maintain bed occupancy rates at sufficient levels, they may not be able to generate adequate returns on their capital investments, which could materially and adversely affect their revenue and profitability.
- If they are unable to keep pace with technological changes, new equipment and service introductions, changes in patients' needs and evolving industry standards, their business and financial condition may be adversely affected.
- The company relies on third-party suppliers, manufacturers and services providers for its supplies and equipment and other services. Failure of such third parties to meet their obligations could adversely affect their business.
- Insurance coverage may not adequately protect them and this may have an adverse effect on the business and revenues.
- The company engages doctors primarily on a consultancy service contract basis and there is no assurance that its doctors will not prematurely terminate their agreements.
- If they do not receive payments on time from their patients and third-party payers, the financial condition, cash flows and results of operations may be materially and adversely affected.
- The company is exposed to legal claims and regulatory actions arising from the provision of healthcare services and may be subject to liabilities arising from claims of malpractice and medical negligence which could materially and adversely affect the reputation and prospects.
- If the company is unable to maintain bed occupancy rates at sufficient levels, it may not be able to generate adequate returns on its capital investments, which could materially and adversely affect the revenue and profitability.
- If the company fails to manage its growth or implement its growth strategies (which include expansion into new geographies), its business, financial condition and results of operations may suffer.
- The company has not entered into any definitive agreements for the new hospitals which it proposes to set up and where it propose to incur capital expenditure by utilizing its Net Proceeds.
- The company has hub-and-spoke model of provision of healthcare services may not be successful and that could adversely impact the business, financial condition and results of operations as a whole.
- They could be exposed to risks relating to the handling of personal information, including medical data.

Valuation:**Peer Comparison:**

The Indian healthcare delivery system has seen consolidation in recent years. A highly competitive industry, coupled with tightening of healthcare regulations, has made it difficult for smaller players in the industry to stay profitable. Larger hospital brands typically have stronger financial discipline and negotiating power with suppliers, better ability to attract medical talent, and greater capital and administrative resources to meet these needs over standalone hospitals.

Name of the company	Total Income for the year end 31st March 2021 (₹ in million)	Face value (₹ per share)	PE	EPS for Fiscal Year 21		NAV (Rs per share)	Return on average net worth (%)
				Basic	Diluted		
Rainbow Children's Medicare Limited	6,603.10	10	NA	4.36	4.25	48.82	8.88%
PEER GROUP							
Apollo Hospitals Enterprise Limited	106,050.00	5	428.88	10.74	10.74	320.10	3.30%
Fortis Healthcare Limited	40,766.80	10	NA	(1.45)	(1.45)	81.06	(0.75%)
Narayana Hrudalaya Limited	26,105.22	10	NA	(0.70)	(0.70)	54.82	(1.46%)
Max Healthcare Institute Limited	26,194.10	10	NA	(1.59)	(1.59)	58.37	(2.47%)
Krishna Institute of Medical Sciences Limited	13,401.02	10	54.19	26.87	26.42	111.32	23.74%

Rainbow Children's Medicare is leading pediatric multi-specialty healthcare chain with strong clinical expertise in managing complex diseases. The company has the ability to conceptualize, create and operate specialized children's hospitals. At the upper end of the IPO price band, the company is offered at 32.6x its FY22 annualized earnings, with a market cap of ₹55,013 million, which we believe is quite reasonable then its other listed peers. The company has a robust track record of performance and has been generating positive cash flow. We are positive on the long-term prospects of the Company. Hence, we recommend a "**Subscribe-Long Term**" rating to this IPO.

DISCLAIMER:**Analyst Certification**

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Ratings Methodology

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