

RETAIL EQUITY RESEARCH

Rainbow Children's Medicare Ltd.

Healthcare Services

SENSEX: 56,580

NIFTY: 16,954

SUBSCRIBE

Price Range Rs. 516 - Rs. 542

A dedicated hospital chain for child and women care....

Rainbow Children's Medicare Ltd (RCML) incorporated on August 7,1998 is a leading multi-specialty paediatric and obstetrics and gynaecology hospital chain in India, operating 14 hospitals and three clinics in six cities. RCML's core specialities are paediatrics, which includes newborn and paediatric intensive care, paediatric multispecialty services, paediatric quaternary care (including multi organ transplants); and obstetrics and gynaecology, which includes normal and complex obstetric care, multi-disciplinary fetal care, perinatal genetic and fertility care. As of December 31, 2021, RCML has 641 full-time doctors and 1,947 part-time/visiting doctors. RCML is backed by UK's development finance institution CDC (~holds ~30.5% shares of RCML).

- The Indian healthcare delivery market is expected to grow at 15-17% CAGR to reach ₹7.67tn in FY25 aided by renewed impetus from PMJAY & government's focus shifting onto healthcare sector.
- RCML's hospital network expanded from 10 to 14 hospitals and the bed capacity increased from 1,162 beds as of FY19 to 1,500 beds as of 9MFY22.
- Given the wide range of specialty offering mix, RCML is classified as a standalone paediatric multi-specialty hospital chain with significant presence in the Southern region.
- RCML follows a hub-and-spoke model, which has strengthened its market position in and around Hyderabad with synergies through referrals for tertiary and quaternary care to the hub arising from the spoke hospitals.
- The successful adoption of doctor engagement model, resulted in a high degree of full-time doctor retention (at ~81% in FY21), which is particularly important for children's emergency, neonatal and pediatric intensive care services.
- RCML's revenue grew ~56.6% to Rs.761cr in 9MFY22 from Rs.486cr in 9MFY21 with a ~228% growth in PAT attributed to increased patient visits due to easing concerns over the pandemic.
- RCML registered a healthy EBITDA and PAT margins of ~26.6% and ~7.3% (3 yr. avg) with a strong Avg RoE of 11.5% over FY19-FY21.
- Going ahead, RCML intends to expand their hospital network through acquisition of brownfield assets or development of greenfield assets by utilising the proceeds from IPO.
- At the upper price band of Rs.542, RCML is priced at 32.6x (FY22E annualized) which appears to be reasonably priced compared to its peers. Hence, we assign a "Subscribe" rating for the issue on a short to medium term basis considering its strong financial performance both topline and bottom-line, improving margins, focus on child-care services and growing preference for specialty maternity hospitals.

Purpose of IPO

The offer comprises of fresh issue by the company and offer for sale by the selling shareholders. They propose to utilize the net proceeds towards funding for early redemption of NCDs (Rs.40cr) issued by RCML to one of their group companies (in full), capex towards setting up of new hospitals and purchase of medical equipments (Rs.170cr) and general corporate purpose.

Key Risks

- Revenues are highly dependent on hospitals in Hyderabad and Bengaluru. i.e., ~77% of total patient volume are from these hospitals as of 9MFY22.
- RCML faces intense competition from other healthcare service providers.

Peer Valuation

Company	MCap(₹ cr)	Sales (₹ cr)	EBITDA(%)	EPS(₹)	RoE (%)	P/E(x)	Bed Capacity	ARPOB (₹,000/Day)	No. of Hospitals	CMP (₹)
Rainbow Children Med.	5,501	650.0	25	3.9	8.9	139	1,475	40.9	14	542
Apollo Hospitals	69,214	10,468	10.9	10.6	3.8	460.5	10,209	40.2	71	4,885
Fortis Healthcare	20,716	3,961	10.5	-	-	-	5,310	43.3	26	279
Narayana Hrudalaya	14,433	2,582	7.1	-	-	-	6,725	28.5	21	708
Max Healthcare	39,842	2,505	21.6	0.1	-	-	3,400	50.1	16	422

Source: Geojit Research, Bloomberg; Valuations of RCML are based on upper end of the price band (post issue), Financials as per FY21 Consolidated. 'ARPOB' - Average Revenue Per Operating Bed.

Issue Details	
Date of opening	April 27, 2022
Date of closing	April 29, 2022
Total No. of shares offered (Cr.)	2.92
Post Issue No. of shares (cr)	10.15
Price Band	₹516- ₹542
Face Value	₹ 10
Bid Lot	27 Shares
Minimum application for retail (upper price band for 1 lot)	₹ 14,634
Maximum application for retail (upper price band for 13 lot)	₹ 1,90,242
Listing	BSE,NSE
Lead Managers	JP Morgan India Pvt. Ltd, IIFL Securities Ltd., Kotak Mahindra Capital Company.

Registrar KFin Technologies Ltd.

Issue size (upper price)	Rs.Cr
Fresh Issue	280.0
OFS	1,300.8
Total Issue	1,580.8

Shareholding (%)	Pre-Issue	Post Issue
Promoter & Promo. Group	62.19	49.83
Public	37.81	50.17
Total	100	100

Issue structure	Allocation %	Size Rs.cr
Retail	35	547.8
Non-Institutional	15	234.8
QIB	50	782.5
Employee Reservation	-	15.7
Total	100	1,580.8

Y.E March (Rs cr) Consol.	FY20	FY21	9MFY22
Sales	719.4	65.0	761.3
Growth (%)	32.5	-9.6	-
EBITDA	197.0	162.8	256.7
Margin%	27.4	25.0	26.9
PAT Adj.	55.3	39.6	126.4
Growth (%)	24.1	-28.5	-
EPS	5.5	3.9	12.5
P/E (x)	99.4	139.0	32.6*
EV/EBITDA	30.4	37.0	17.6*
RoE (%)	13.6	8.8	19.4

*Annualised.

Business description:

RCML offers comprehensive healthcare services across their core specialties of (i) paediatrics, including newborn and pediatric intensive care, pediatric multi-specialty care services and pediatric quaternary care, where they also perform multi-organ transplants in children, and (ii) obstetrics and gynaecology, including normal and complex obstetric care, multi-disciplinary fetal care and perinatal genetic care, as well as fertility treatment, where RCML offer a wide range of assisted reproduction treatments. Rainbow Children Medicare Ltd is classified as a standalone pediatric multi-specialty hospital chain and one of the few pediatric focused hospital chains in south India.

Pediatric services (including secondary, tertiary and quaternary care)

RCML offer a comprehensive range of healthcare services for children from birth all through their childhood and adolescent years. Since inception, RCML strived to provide the best services for children requiring super specialty care in a child-friendly environment. For the nine months ended December 31, 2021 and the financial years 2021, 2020 and 2019, RCML had 36,518 inpatients and 432,459 outpatients, 34,352 inpatients and 412,420 outpatients, 49,641 inpatients and 697,672 outpatients, and 38,937 inpatients and 570,573 outpatients, respectively, for paediatric services. In the nine months ended December 31, 2021 and the financial years 2021, 2020 and 2019, RCML handled 3,328, 4,093, 4,474 and 3,860 pediatric surgeries, respectively.

Women care

Obstetrics, gynaecology, fetal medicine and fertility

RCML provide women care services at their hospitals under “Birthright” initiative, through which they offer highly specialized maternity and perinatal care with the aim of achieving safe delivery and healthy babies. For the nine months ended December 31, 2021 and the financial years 2021, 2020 and 2019, RCML had 14,557 inpatients and 182,979 outpatients, 16,814 inpatients and 211,691 outpatients, 17,200 inpatients and 243,377 outpatients, and 14,484 inpatients and 216,772 outpatients, respectively, for obstetrics and gynaecology and related services.

Fertility care services

RCML also have a team of highly-trained medical professionals with vast experience in fertility care. The company aim to provide a holistic and personalized approach at every stage of the patient’s fertility treatment.

Revenue Recognition

Revenue from operations comprises (i) income from medical and healthcare services, which includes revenue from hospital services, pharmacy sales and medical service fees, and (ii) other operating income.

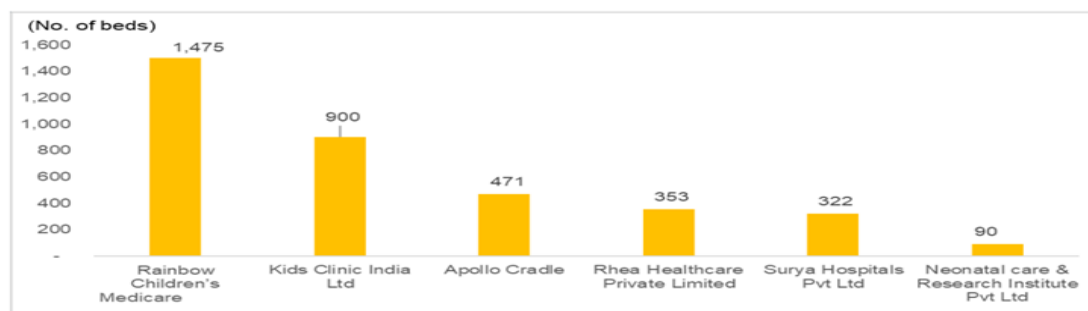
Hub-and-spoke model that provides synergies and ensures better care and access for patients

RCML executed a hub-and-spoke model at Hyderabad, Telangana with 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 hub hospital, they provide comprehensive outpatient and inpatient care with a focus on tertiary and quaternary care and, at spokes, RCML provide secondary care in pediatric, obstetrics and gynecology and emergency services. Under this model, super-specialty doctors based at hub hospital are able to reach out to the larger community and cover a larger catchment area. This model has enabled RCML 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 hub hospitals.

Strong track record of growth, operational and financial performance

RCML has grown its bed capacity from 50 beds in a single hospital in 1999 to 1,500 beds across 14 hospitals as of December 31, 2021. Over the last six years, they have added 985 beds across 10 hospitals and have expanded presence from two cities to six cities. RCML followed a financially disciplined model, focusing on cost-effective growth. Going forward, RCML intends 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).

Rainbow hospitals has the highest number of beds as of FY21 among the peers considered



Note: The data given above is only indicative and not exhaustive
 [Source: Companies' annual reports/investor presentations, CRISIL Research]

Source: Geojit Research, RHP

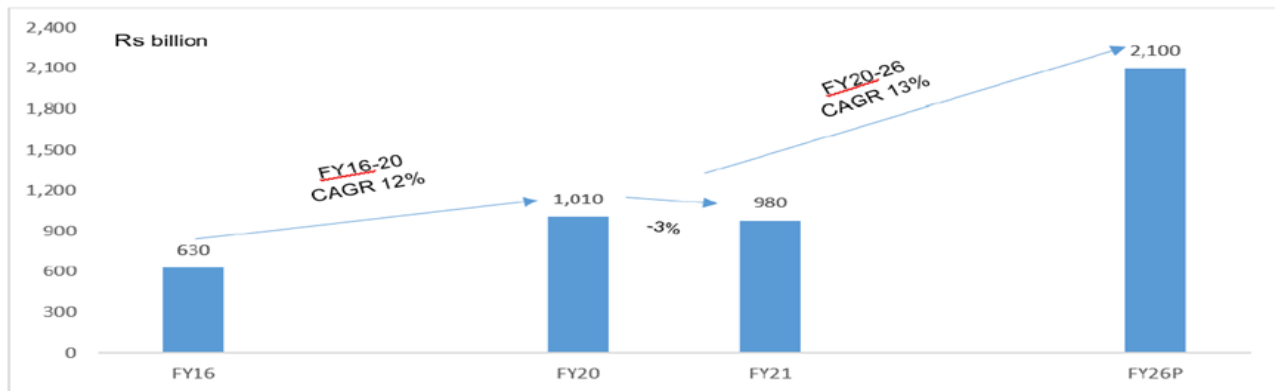
Key Strategies:

- To strengthen tertiary and quaternary pediatric services in their existing hospitals.
- Further to grow their comprehensive perinatal services offered under “Birthright by Rainbow”.
- To grow their presence through hub and spoke networks across key geographic clusters and new locations.
- Digital healthcare initiatives to address patient convenience, operational efficiencies and expand reach.
- Initiatives to drive performance efficiencies.

Industry Outlook

The total hospital market size in India in financial year 2020 was expected to be approximately ₹4,270 billion growing at a CAGR of 13% between the financial years 2016 and 2020. Paediatric market which has grown at 14% CAGR between financial years 2016 and 2020 is expected to grow at the same growth going forward.

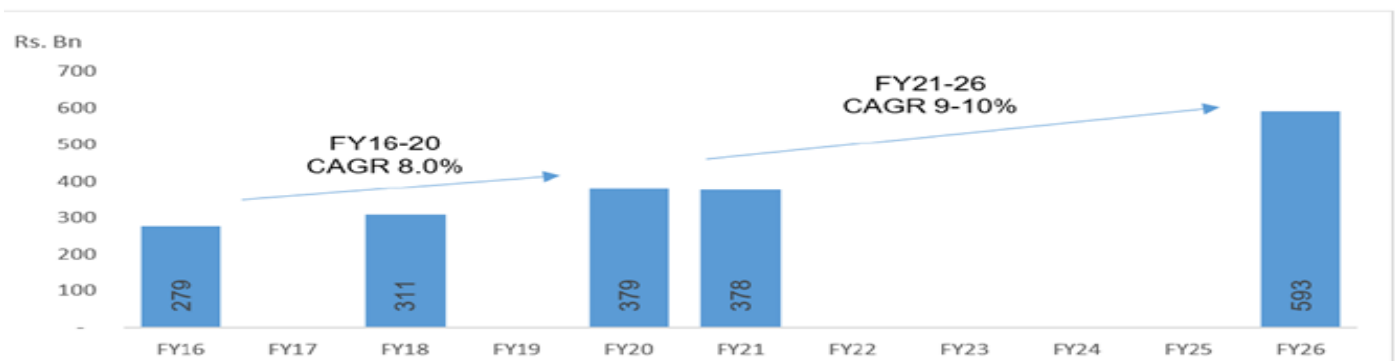
Market size of paediatric healthcare facilities in India



Source: Geojit Research, RHP

The maternity market has seen a growth of 8% between the financial years 2016 and 2020 and is expected to grow at 7-8% between the financial years 2020 and 2026 supported by strong growth in private segment of 11-12% CAGR.

Maternity healthcare delivery services in India



Source: Geojit Research, RHP

Promoter and promoter group

Dr. Ramesh Kancharla, Dr. Dinesh Kumar Chirla; and Dr. Adarsh Kancharla are the promoters of the company. Currently promoters hold in aggregate 52,964,736 equity shares, which constitutes 54.98% of pre-Offer issued, subscribed and paid-up Equity Share Capital of the company.

Brief Biographies of directors

The Board of six Directors including Chairman and Managing Director, one Whole-time Director, and four Independent Directors, one of whom is a woman.

- **Dr. Ramesh Kancharla** is the Chairman and Managing Director of the company. He has over 23 years of experience with the company.
- **Dr. Dinesh Kumar Chirla** is the Whole-time Director of the company. He was also a Clinical Fellow (Specialist Registrar) in the Paediatric Intensive Care Unit at the United Bristol Healthcare NHS Trust. He has over 18 years of experience in the healthcare industry.
- **Aluri Srinavasa Rao** is an Independent Director of the company. He was appointed to the Board on March 15, 2019.
- **Dr. Anil Dhawan** is an Independent Director of the company. He was appointed to the Board on August 30, 2018.
- **Sundari Raviprasad Pisupati** is an Independent Director of the company.
- **Santanu Mukherjee** is an Independent Director of the company.

CONSOLIDATED FINANCIALS

PROFIT & LOSS

Y.E March (Rs cr)	FY20	FY21	9MFY22
Sales	719.4	650.0	486.2
% change	32.5	-9.6	-
EBITDA	197.0	162.8	256.7
% change	33	-17	-
Depreciation	69.4	73.3	61.0
EBIT	127.6	89.5	195.8
Interest	44.6	44.1	36.9
Other Income	10.3	10.3	12.8
Exceptional Items	-	-	-
PBT	93.4	55.7	171.6
% change	62	-40.3	-
Tax	38.0	16.1	-
Tax Rate (%)	41	29	26
Reported PAT	55.3	39.6	126.4
Adj	-	-	-
Adj. PAT	55.3	39.6	126.4
% change	24.1	-28.5	-
Post issue No. of shares (cr)	10.15	10.15	10.15
Adj EPS (Rs)	5.5	3.9	12.5
% change	24.1	-28.5	-

BALANCE SHEET

Y.E March (Rs cr)	FY20	FY21	9MFY22
Cash	97.2	94.7	97.2
Accounts Receivable	44.0	44.0	56.6
Inventories	16.0	10.1	12.6
Other Cur. Assets	35.5	38.1	16.1
Investments	57.0	73.0	117.5
Deff. Tax Assets	0.3	2.8	9.4
Net Fixed Assets	696.3	767.8	812.6
CWIP	42.7	28.8	5.7
Intangible Assets	5.3	4.5	4.2
Other Assets	24.9	17.6	58.6
Total Assets	1,019	1,081	1,240
Current Liabilities	68.4	63.1	77.6
Provisions	13.2	7.9	7.2
Debt Funds	490.2	518.5	533.8
Other Fin. Liabilities	34.5	39.5	20.2
Deferred Tax liability	3.6	3.8	7.4
Equity Capital	54.9	54.9	105.0
Reserves & Surplus	350.5	391.5	485.3
Shareholder's Fund	405.4	446.4	590.3
Total Liabilities	1,019	1,081	1,240
BVPS (Rs)	40	44	58

CASH FLOW

Y.E March	FY20	FY21	9MFY22
PBT Adj.	93.4	55.7	171.6
Non-operating & non cash adj.	109.5	110.7	88.8
Changes in W.C	-32.5	-23.7	-66.7
C.F. Operating	170.4	142.7	193.7
Capital expenditure	-74.4	-76	-37
Change in investment	-28.3	-5	-67.04
Sale of investment	-22.5	-10.2	-62.5
Other invest.CF	8.18	7.76	4.62
C.F - investing	-117.0	-82.9	-162.0
Issue of equity	-	-	-
Issue/repay debt	-39.4	-59.2	-48
Dividends paid	-17	-	-9
Other finance.CF	4.3	-1.7	27.4
C.F - Financing	-51.8	-60.9	-30.1
Change. in cash	1.6	-1	2
Closing cash	7	6	7

RATIOS

Y.E March	FY20	FY21	9MFY22
Profitab. & Return			
EBITDA margin (%)	27.4	25.0	26.9
EBIT margin (%)	17.7	13.8	25.7
Net profit mgn.(%)	7.7	6.1	16.6
ROE (%)	13.6	8.8	21.4
ROCE (%)	4.7	3.8	7.4
W.C & Liquidity			
Receivables (days)	20	25	14
Inventory (days)	40	46	21
Payables (days)	30	30	24
Current ratio (x)	3.1	3.7	4.1
Quick ratio (x)	2.1	2.2	2.6
Turnover & Levq.			
Net asset T.O (x)	1.0	0.9	1.0
Total asset T.O (x)	0.7	0.6	0.7
Int. covge. ratio (x)	2.9	2.0	5.3
Adj. debt/equity (x)	1.2	1.2	0.9
Valuation ratios			
EV/Sales (x)	8.3	9.3	7.9
EV/EBITDA (x)	30.4	37.0	17.6*
P/E (x)	99.4	139.0	32.6*
P/BV (x)	13.6	12.3	9.3

*Annualised.

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