Rainbow Children's Medicare (RAINBOW IN)

Rating: BUY | CMP: Rs1,552 | TP: Rs1,785

Leading the way with sustainable growth

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January 13, 2025

Company Initiation

Rainbow Children's Medicare (RAINBOW IN)

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Leading the way with sustainable growth

We initiate coverage on Rainbow Children's Medicare (RAINBOW IN) with 'BUY' rating and TP of Rs1,785/share, 15% upside from current levels. RAINBOW enjoys higher margins, strong FCF generation with net cash B/S, and healthy return ratios because of the asset-light hub-and-spoke model, it being the only integrated multi-specialty pediatric hospital chain in India offering comprehensive services, and its full-time doctor engagement model. The company witnessed moderate FY24 (8% YoY EBITDA growth) due to weak seasonality related infections, a high COVID base and commissioning of new beds (added 280 beds in H2FY24). However, we expect growth to gain momentum in FY25 with the ramping up of new units and anticipating a normal season cycle. Strategic expansion across its core markets in South India also augurs well for its sustainable growth of the company. We see EBITDA/PAT CAGR of 19%/22% over FY24-27E with healthy RoE/RoCE of ~21%/25%. We value RAINBOW at 28x EV/EBITDA on FY27E EBITDA. Initiate 'BUY'.

Leading multi-specialty pediatric hospital chain in India: Capitalizing on the first-mover advantage, RAINBOW has established its leadership position in Indian pediatrics market as a provider of comprehensive and specialized services. One of the primary competitive advantages for RAINBOW is the allocation of 1/3 of its beds to critical care. Through a network of 19 hospitals across 6 cities, RAINBOW offers the highest bed capacity (1,935) for pediatric and maternity care in South and North India.

Asset-light hub-and-spoke model driving efficiency: The hub-and-spoke model has helped unlock synergies and operational efficiencies and achieve EBITDA breakeven faster than the normal multi-specialty setup. The model has also resulted in lower capex per bed. Historically, RAINBOW's capex has been lower than peers, at Rs5-6mn/bed to operationalize existing beds.

Network expansion plan, especially through spokes and entering new geographies: RAINBOW has operationalized 1,523 beds of its total 1,935 capacity as of Q2FY25. The company is likely to operationalize 380+ beds over H2FY25-27E through the addition of spokes across Bengaluru, and a regional hub each in Coimbatore and Rajahmundry, which are newer locations. Consequently, it will see 19% revenue CAGR over FY24-27E. The company is also exploring M&A opportunities in newer markets like Northeast and West India.

Healthy return ratios and margins: Despite weak FY24, the company was able to maintain its OPM at +33%. Overall, we see pre-IND AS margins to sustain at 27-28% vs. 20-25% for most peers. The company typically enjoys RoCE of ~25% adjusted for rentals, and RoIC (post tax) at 30%, superior to most peers. RAINBOW will continue to see improved return ratios as new capacities ramp up.

Outlook and valuation: We expect revenue to clock 19% CAGR over FY24-27E aided by new bed additions, better season in FY25 and ramp-up of new units. RAINBOW is likely to commission 380+ beds over H2FY25-27E. Overall, we expect EBITDA/PAT CAGR of 19%/ 22% over FY24-27E with healthy RoE/RoCE of ~21%/25% adjusted for lease liabilities. We value RAINBOW at 28x EV/EBITDA on FY27E and recommend 'BUY' rating with TP of Rs1,785/share.

Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	12,969	15,154	17,691	21,594
EBITDA (Rs. m)	4,289	4,975	5,939	7,205
Margin (%)	*33.1*	*32.8*	*33.6*	*33.4*
PAT (Rs. m)	2,170	2,511	3,147	3,961
EPS (Rs.)	21.4	24.7	31.0	39.0
Gr. (%)	*2.9*	*15.7*	*25.3*	*25.9*
DPS (Rs.)	3.5	4.6	5.8	7.0
Yield (%)	*0.2*	*0.3*	*0.4*	*0.4*
RoE (%)	*18.7*	*18.5*	*19.8*	*21.1*
RoCE (%)	*17.3*	*16.8*	*17.9*	*18.9*
EV/Sales (x)	12.0	10.2	8.6	6.9
EV/EBITDA (x)	36.3	30.9	25.5	20.6
PE (x)	72.6	62.7	50.1	39.8
P/BV (x)	12.5	10.8	9.2	7.7

Key Data	GDPI.BO | RAINBOW IN
52-W High / Low	Rs. 1,710 / Rs. 1,079
Sensex / Nifty	77,379 / 23,432
Market Cap	Rs. 158 bn/ $ 1,834 m
Shares Outstanding	102m
3M Avg. Daily Value	Rs. 404.49m

Shareholding Pattern (%)	
Promoter's	49.85
Foreign	25.12
Domestic Institution	13.84
Public & Others	11.20
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.9)	22.5	18.3
Relative	0.2	26.5	9.5

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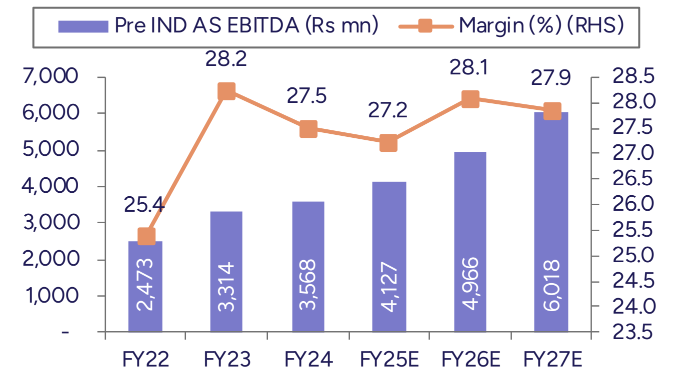
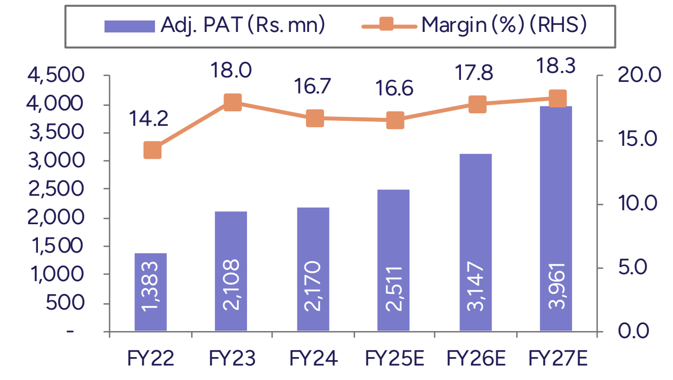
Story in Charts & Peer Valuation

Exhibit 1: EBITDA to grow at 19% CAGR over FY24-27E



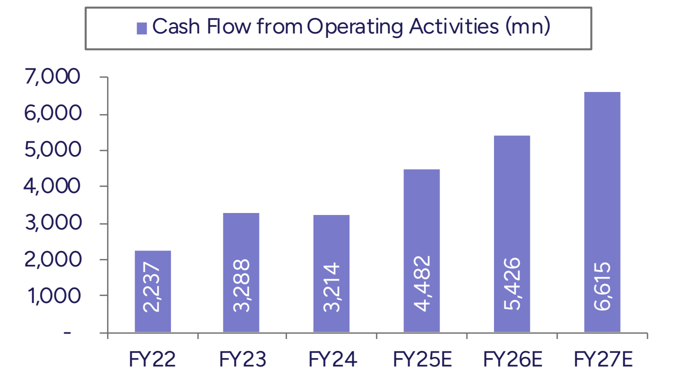
Source: Company, PL

Exhibit 2: PAT CAGR estimated at 22% over FY24-27E



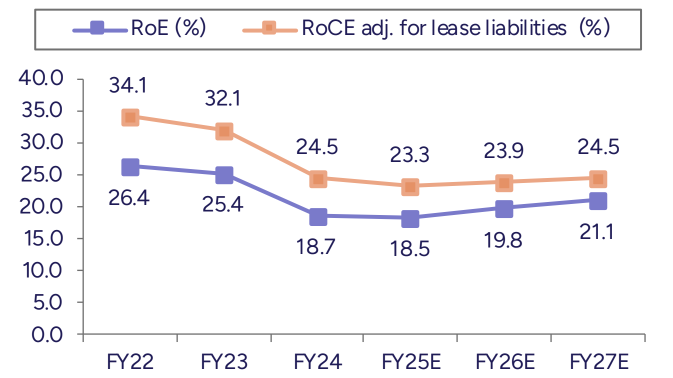
Source: Company, PL

Exhibit 3: Strong OCF generation over FY24-27E



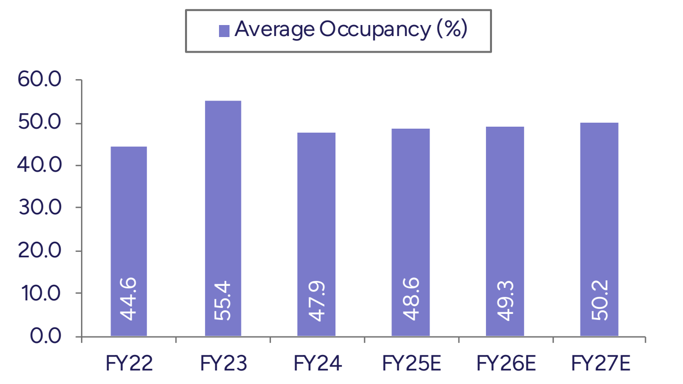
Source: Company, PL

Exhibit 4: Healthy RoE & RoCE profile – adjusted for lease



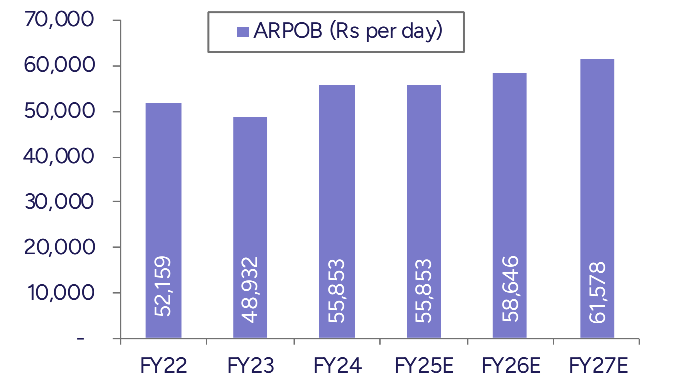
Source: Company, PL

Exhibit 5: Occupancy to improve as units ramp up



Source: Company, PL

Exhibit 6: Expect healthy ARPOB on better case & payor mix



Source: Company, PL

We value RAINBOW at 28x EV/EBITDA on FY27E EBITDA

Exhibit 7: Valuation table

Particulars	FY27E
EBITDA (Rs mn)	6,018
Target multiple (x)	28
EV (Rs mn)	168,500
Less net debt (Rs mn)	-12,416
Derived market cap (Rs mn)	180,916
No. of shares (mn)	102
Target price (Rs)	1,785
CMP (Rs)	1,552
Upside (%)	15%

Source: Company, PL

Exhibit 8: Peer valuation

Peer hospital companies	EV/EBITDA (x)		EBITDA CAGR (%)
	FY26E	FY27E	FY24-27E
Apollo Hospitals Enterprise Ltd	27.7	22.7	30.2
Aster DM Healthcare Ltd	27.5	21.8	23.5
Fortis Healthcare Ltd	29.8	25.4	20.9
HealthCare Global Enterprises Ltd	17.2	14.8	26.6
Krishna Institute of Medical Sciences Ltd	32.8	26.3	23.1
Max Healthcare Institute Ltd	39.7	31.6	25.0
Narayana Hrudayalaya Ltd	19.0	16.3	14.0
Rainbow Children's Medicare Ltd	**30.6**	**25.2**	**19.0**
Global Health Ltd (Medanta)	26.5	22.5	16.2
Jupiter Life Line Hospitals Ltd	27.1	23.5	20.9

Source: Company, PL

Note: 1) EV/EBITDA is on pre-IND AS basis

2) Fortis, ASTERDM and KIMS EV/ EBITDA are adjusted for minority stake

3) Medanta represents consensus numbers

4) ASTERDM represents a combined entity (ASTERDM + QCIL)

RAINBOW: Focused on pediatric & maternity care

Hyderabad-based leading pediatric multi-specialty and perinatal hospital chain with a legacy of 25+ years

Established in 1998 and headquartered in Hyderabad, Rainbow Children's Medicare (RAINBOW) is a leading pediatric multi-specialty and perinatal hospital chain operating for over 25 years, led by its promoter Dr Ramesh Kancharla. With a total bed capacity of 2,065 (including 130 beds managed at Madhukar Trust, Delhi) across 19 hospitals and 4 clinics in 6 cities, it operates in South and North India. It offers specialized services in pediatrics (newborn and pediatric intensive care), pediatric multi-specialty services, pediatric quaternary care (including multi-organ transplant), and obstetrics and gynecology services, which cover normal and complex obstetric care, multi-disciplinary fetal care, perinatal genetic, and fertility care.

Maternity care (gynecology & obstetrics) contributed to ~30% of total revenue in FY24

RAINBOW commenced its first pediatric specialty hospital (50 beds) in 1999 in Hyderabad and has expanded to 19 hospitals with 1,935 beds (excluding 130 beds at Madhukar Trust, Delhi) across Hyderabad, Vijayawada, Visakhapatnam, Bengaluru, Chennai and Delhi over the years. RAINBOW strategically extended its services to encompass obstetrics and gynecology in 2007 by leveraging its success in managing complex pediatric cases. In 2009, the company expanded its scope to include maternity care (gynecology/ obstetrics), which accounted for ~30% of its total revenue in FY24. This expansion addressed the growing need for a comprehensive perinatal ecosystem. The integrated approach helps cater to high-risk pregnancies, ensures immediate surgical interventions for newborns if necessary, and facilitates essential neonatal care. Consequently, RAINBOW has established itself as a leading one-stop solution provider of comprehensive child and mother healthcare.

All RAINBOW hospitals on lease, except in Visakhapatnam, which is owned

- With an emphasis on tertiary and quaternary care, it operates on the hub-and-spoke model, ensuring wider coverage. Its hubs provide comprehensive outpatient (OP) and inpatient (IP) care such as intensive, pediatric multi-specialty, and quaternary care services, while spokes provide secondary care in pediatrics and perinatal, and emergency services.
- RAINBOW has created synergy effects through referrals for tertiary and quaternary care from spoke hospitals and improved its market position in Hyderabad.
- Currently, all its hospitals are on lease, except one owned hospital at Visakhapatnam. In general, it opts for a 20-year lease with an option to extend to 30 years.

33% of RAINBOW's bed capacity allocated to ICUs

- RAINBOW has established a strong brand reputation in managing complex pediatric cases across tertiary and quaternary care with 33% of its bed capacity allocated to ICUs.
- Under RAINBOW's doctor engagement model, most of its core doctors work exclusively at its hospitals on a full-time retainer basis. This model ensures that core doctors are available 24/7 on a roster basis at its hospitals, which is particularly important for children's emergency, and neonatal and pediatric intensive care services. RAINBOW had 800+ doctors and conducted 15.8k+ deliveries in FY24 (14.7k+ in FY23).

- Furthermore, RAINBOW's hub hospitals at Hyderabad and Bengaluru, and IVF facility at Kondapur, Hyderabad, are JCI accredited. It is the only hospital chain in India to have JCI accreditation, which shows the clinical and infra superiority.

Exhibit 9: RAINBOW's growth trajectory

Year	Key developments
1999	Commenced operations with first hospital at Banjara Hills, Hyderabad
2007	Added hospital at Vijayawada, expanded services to include obstetrics and gynecology
2009	Established first spoke hospital at Vikrampuri, Hyderabad
2010	Opened first OP clinic at Madhapur, Hyderabad
2013	Established hospital in Kondapur, Hyderabad
2015	Established 2 hospitals: Hyder Nagar, Hyderabad, and Marathahalli, Bengaluru
2016	Established 2 spoke hospitals: BG Road, Bengaluru, and LB Nagar, Hyderabad
2017	Expanded into North India with Madhukar Rainbow Children's Hospital at Malviya Nagar, New Delhi
2018	Expanded into Chennai with the launch of a hospital in Guindy
2019	Established 2 hospitals: Rosewalk, New Delhi, and standalone cardiac hospital RCHI, Hyderabad
2020	Expanded footprint to Visakhapatnam, Andhra Pradesh; added 1 spoke hospital at Hebbal, Bengaluru
2021	Commenced liver transplant services at Banjara Hills, Hyderabad
2022	Got listed on BSE and NSE; added 1 spoke hospital in Sholinganallur, Chennai
2023	Established seventh hospital at Financial District, Hyderabad, taking the count to 16 hospitals
2023	Launched new units at Financial District and Himayat Nagar, Hyderabad, in Jan and Dec, respectively
2024	Launched new units at Sarjapur and Anna Nagar, Bengaluru, in Jan and Feb, respectively
2024	Expanded capacity by adding a new block at Hyder Nagar and LB Nagar hospitals
2024	IVF services started at 8 hospitals; IVF services now available at 11 hospitals
2024	Secured 2 land parcels in Gurugram to expand geographic presence through greenfield projects

Source: Company, PL

Exhibit 10: Total 1,935 bed capacity across 19 hospitals and 6 cities

	Year of commencement	Bed capacity (#)
Hyderabad cluster		
1) Banjara Hills – Hub	1999	250
2) Vikrampuri	2007	110
3) Kondapur	2013	50
4) Hyder Nagar	2014	160
5) LB Nagar	2016	100
6) Banjara Hills	2019	110
7) Financial District	2023	100
8) Himayat Nagar	2024	60
Total		**940**
Bengaluru cluster		
1) Marathahalli – Hub	2015	200
2) Bannerghatta Road	2016	102
3) Hebbal	2020	50
4) Sarjapur	2024	90
Total		**442**
Andhra Pradesh cluster		
1) Vijayawada	2007	130
2) Visakhapatnam	2020	129
Total		**259**
New Delhi cluster		
1) Malviya Nagar – Hub	2017	130
2) Panchsheel Park	2019	24
Total		**24**
Chennai cluster		
1) Guindy – Hub	2018	135
2) Sholinganallur, OMR	2022	55
3) Anna Nagar	2024	80
Total		**270**
Consolidated bed capacity (#)		**1,935**

Source: Company, PL; Note: Total beds in New Delhi cluster exclude 130 managed beds at Malviya Nagar

Offers the highest bed capacity (1,935) for pediatric and maternity care in South and North India

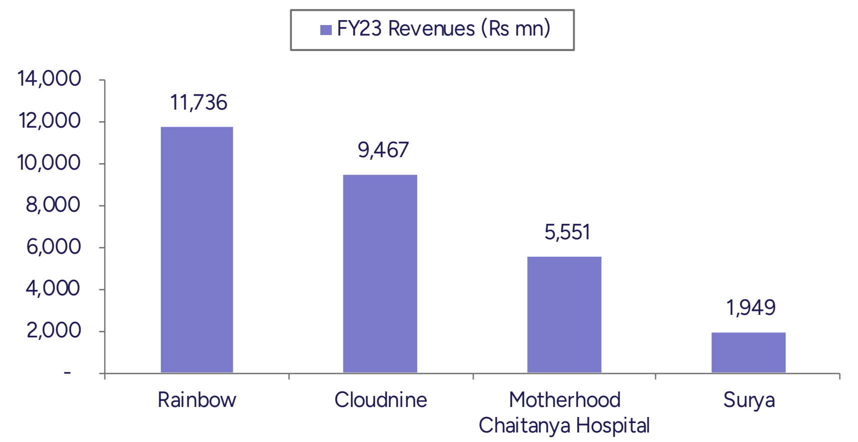
Investment Rationale

Leading multi-specialty pediatric hospital chain in India

Capitalizing on the first-mover advantage, RAINBOW has established its leadership position in Indian pediatrics market as a provider of comprehensive and specialized services. One of the primary competitive advantages for RAINBOW is the allocation of 1/3rd of its beds to critical care. Through a network of 19 hospitals across 6 cities, RAINBOW offers the highest bed capacity (1,935) for pediatric and maternity care in South and North India.

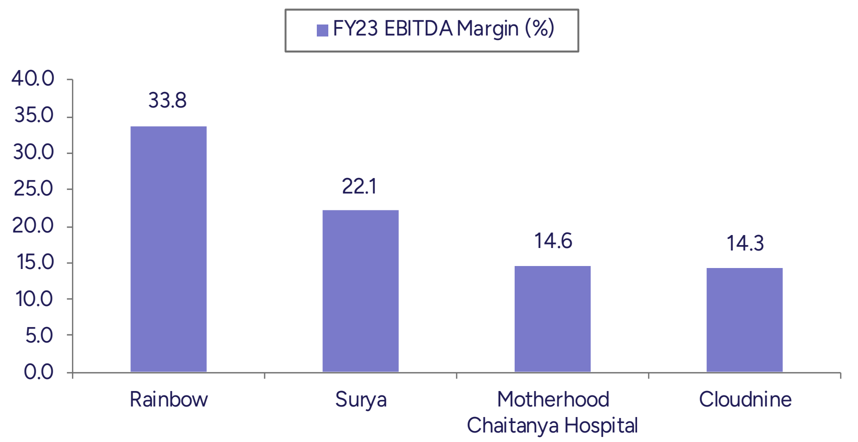
RAINBOW's unique value proposition of offering comprehensive care on pediatric care services across niche areas such as neurology, nephrology, gastro, oncology and cardiology, augurs well for the creation of a child centric hospital environment. Further, it has the highest operating income and margins in the maternity and pediatric sector.

Exhibit 11: RAINBOW – Highest revenue among pediatric & maternity peers



Source: Company, Tracxn and PL

Exhibit 12: RAINBOW – Highest margins among pediatric & maternity peers



Source: Company, Tracxn and PL

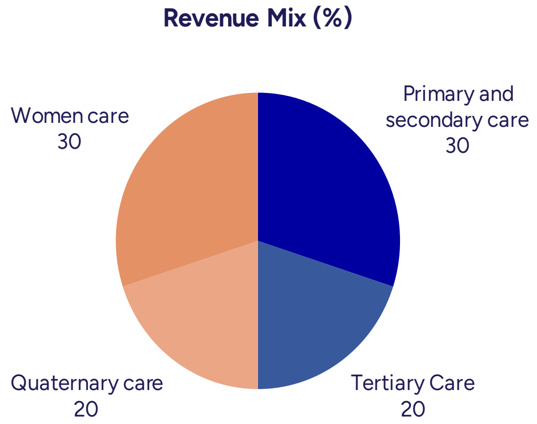
Highest number of PICU and NICU beds among peers

Differentiates itself by offering the highest number of beds in PICUs and NICUs, among peers

RAINBOW boasts the highest number of bed capacity dedicated to pediatric and maternity care (1,935) in the country. This ensures a strong patient base and enables the company to handle a high volume of cases. Further, it has allocated significant bed capacity to neonatal intensive care units (NICUs) and pediatric intensive care units (PICUs), compared to its peers. On average 1/3rd of its beds is dedicated to PICUs and NICUs vs. industry average of ~1/6th. This extensive critical care infrastructure positions RAINBOW as a leading provider of intensive medical support for newborns and children requiring specialized care. Also, RAINBOW hospitals provide healthcare services in over 30 specialties with 24/7 doctor support.

~30% revenue comes from primary and secondary care, ~40% from tertiary and quaternary care, and ~30% from women care

Exhibit 13: RAINBOW derives 40% of revenue from tertiary and quaternary care



Source: Company, PL

Established brand with proven clinical excellence

RAINBOW has a strong track record of successfully managing hospital operations across regions for over 2 decades. Its hub hospital in Hyderabad offers plasmapheresis services, burn treatment, post-transplant patient care, and neonatal and children extracorporeal membrane oxygenation therapy, which enables it to manage complex tertiary and quaternary pediatric cases.

Offers advanced pediatric care, including complex treatments like plasmapheresis and ECMO, led by a skilled medical team comprising experienced doctors

RAINBOW's clinical expertise in pediatric care is well supported by skilled medical talent. RAINBOW also has a strong management team led by Dr Ramesh Kancharla, who has over 23 years of experience in the field of pediatrics, pediatric gastroenterology, liver diseases and liver transplantation. Dr Dinesh Kumar Chirla, one of the whole-time directors, is a trained neonatologist. RAINBOW also invests in modern infrastructure and clinical back-up to provide high-quality medical care.

Full-time doctor engagement model with core specialists available 24/7

Full-time doctor engagement model

RAINBOW's distinguished reputation can be partially attributed to its expertise in establishing and managing child-centered healthcare facilities. This strength stems from the extensive experience of its founding promoter and senior doctor consultants, who gained invaluable knowledge through their training at renowned pediatric institutions across the US, the UK, Canada and Australia. RAINBOW works on the full-time doctor engagement model with core specialists being available 24/7, which has enabled its hospitals to create strong capabilities in managing tertiary and quaternary cases.

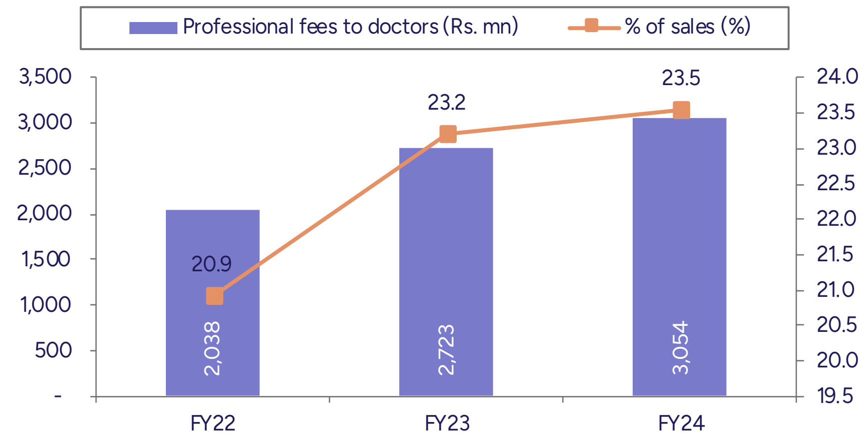
Further, RAINBOW has 835+ full-time doctors (640+ in FY22) with a high retention rate (81%+ for FY24). The overall employee retention rate was 67% for FY24.

The ability to attract and retain top talent in the pediatric and women's care segment, is a key competitive advantage

Robust physician retention strategy

- RAINBOW offers retainership contracts for the initial 2-3 years of employment, providing financial stability and a comprehensive learning environment to its doctors.
- This approach fosters long-term loyalty and has resulted in a high retention rate for full-time consultants.
- Professional fees paid to doctors accounted for 21-24% of company revenue over the last 3 years. This has gone up over the last 2 years with new centers being commissioned.
- Further, through its equity participation model, 30+ doctors collectively own ~13% of the company.

Exhibit 14: RAINBOW's doctor cost at ~21-24% of sales



Source: Company, PL

Asset-light hub-and-spoke model driving efficiency

Well-established hub-and-spoke model enables provision of multi-level healthcare services

RAINBOW operates through its hubs located in: (i) Banjara Hills, Hyderabad, (ii) Marathahalli, Bengaluru, (iii) Guindy, Chennai, and (iv) Malviya Nagar, Delhi. The hub-and-spoke model enables RAINBOW to offer multi-level healthcare services, ensuring accessibility for patients in various regions, while concentrating on complex medical expertise at central hubs.

RAINBOW's hubs offer comprehensive advanced tertiary and quaternary treatment in most clinical specialties in addition to OP and IP care, while spokes function as satellite locations and provide primary, secondary and tertiary care in pediatrics, obstetrics and gynecology, and emergency services, and are well equipped with MICUs, NICUs, PICUs, etc.

Hub-and-spoke model offering synergies

This model leverages synergies by enabling complex referrals from spokes to the hub's super-specialty doctors, thereby expanding the catchment area and accelerating breakeven for spokes. The model helps unlock synergies and operational efficiencies and achieve EBITDA breakeven faster than the normal multi-specialty setup. The model also results in lower capex per bed and facilitates faster expansion.

The hub-and-spoke model thus allows for centralized expansion within a cluster, leading to significant synergy benefits such as lower cost along with focused 24/7 doctor engagement, and improved patient footfall.

Historical success in Hyderabad supporting ramp-up in other regions

All 7 spokes in Hyderabad are situated within 10-20km radius of the hub

RAINBOW has successfully operationalized the asset-light hub-and-spoke model at Hyderabad with 8 hospitals and 940 beds. These hospitals are strategically located, with the hub (Banjara Hills) in the center and spokes in attractive catchment areas of HITEC City, Secunderabad and other areas, easily accessible to patients via major highways. Most importantly, all the spokes in Hyderabad are situated within a 10-20km radius of the hub.

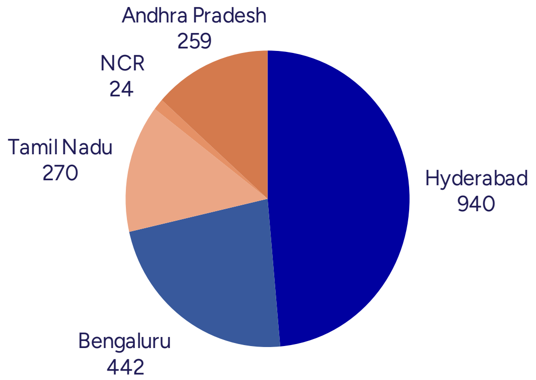
Success of the hub-and-spoke model in Hyderabad and Bengaluru has allowed RAINBOW to replicate the business model in Delhi, Vijayawada, Chennai and Visakhapatnam. These projects demonstrate the scalability of the model to cater to the growing need for quality pediatric healthcare services in other cities.

Exhibit 15: RAINBOW has 4 hubs and 15 spokes across 6 cities

Cluster-wise data - FY24	Number of hospitals (#)	Hub	Spokes	Status
Hyderabad, Telangana	8	1	7	Leased
Bengaluru, Karnataka	4	1	3	Leased
Andhra Pradesh	2	-	2	1 leased, 1 owned
New Delhi, Delhi	2	1	1	Leased
Chennai, Tamil Nadu	3	1	2	Leased
Total	**19**	**4**	**15**	

Source: Company, PL

Exhibit 16: Hyderabad cluster contributes ~50% of total bed capacity



Source: Company, PL

Business model facilitating faster EBITDA breakeven

The asset-light hub-and-spoke model offers operational cost advantages compared to traditional hospital chains. The model allows for faster geographic expansion and improved profitability. This model drives synergies and operational efficiencies that help achieve EBITDA breakeven faster than a normal multi-specialty set up. The model also results in lower capex per bed. Historically, RAINBOW's capex has been lower than peers, at Rs5-6mn/bed to operationalize existing beds given the inherent nature of business that has lower surgical mix and thereby requires lesser high-end equipment.

New spoke hospitals demonstrated rapid profitability and achieved EBITDA breakeven within 12-24 months

RAINBOW's new spoke hospitals exhibit superior operational efficiency compared to the hub and industry peers. Given these spokes focus on primary, secondary and tertiary care in pediatrics, maternity and emergency services, they tend to break even faster within 12-18 months at occupancy levels of 27-30% versus typical multi-specialty hospitals, which take 2-3 years to break even.

The new spoke hospitals in Hebbal and Visakhapatnam, which commenced operations in 2020, demonstrated rapid profitability and achieved operational breakeven within 12 and 24 months, respectively. Additionally, the new hospital in Guindy, Chennai (new region), commercialized in 2018 with 135 beds, capitalized on RAINBOW's strong brand presence in the state and strategic location to achieve operational breakeven in its second year of operations.

Exhibit 17: New hospitals prior to 2024 achieved breakeven within 12-24 months

Hospitals	Year of commencement	Bed capacity (#)	Hub/ Spoke
Hebbal	2020	50	Spoke
Visakhapatnam	2020	129	Hub
Sholinganallur, OMR	2022	55	Spoke
Financial District	2023	100	Spoke
Himayat Nagar	2024	60	Spoke
Sarjapur	2024	90	Spoke
Anna Nagar	2024	80	Spoke

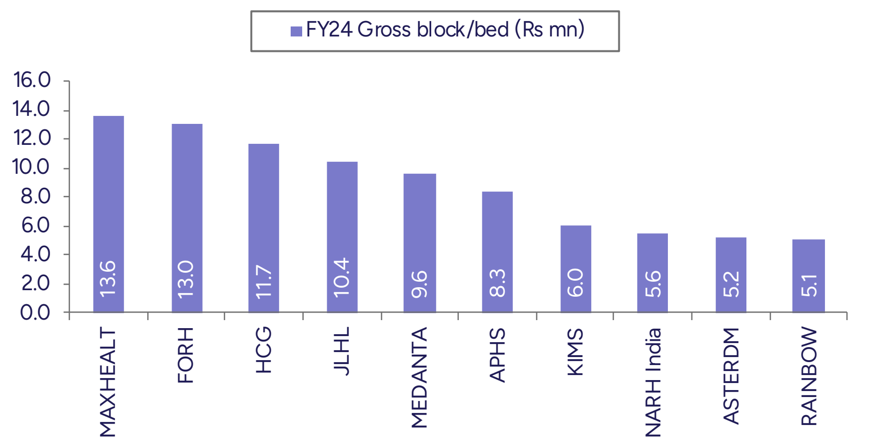
Source: Company, PL

RAINBOW's capex has been historically lower than peers, at Rs5-6mn/bed to operationalize existing beds

Lower capex per bed vs. peers

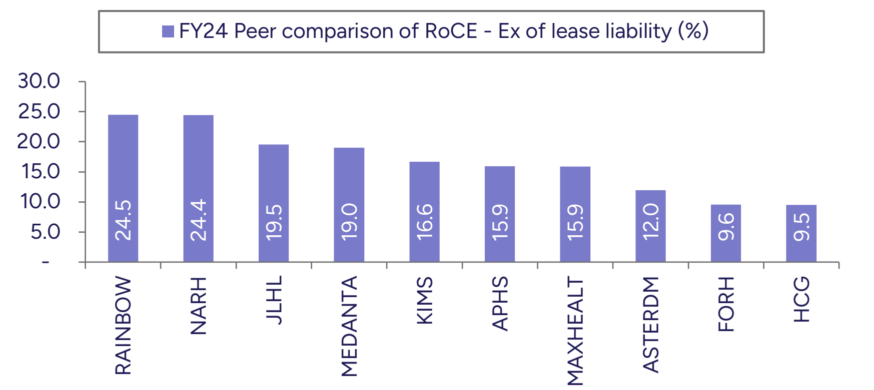
RAINBOW primarily operates through leased facilities, with only 1 hospital in Visakhapatnam owned outright. This minimizes upfront capital investment and allows for quicker geographic expansion. Further, RAINBOW's capex has been historically lower than peers, at Rs5-6mn/bed to operationalize existing beds. Typically, 70-80% of pediatric cases are non-surgical in nature, and hence, the spending on expensive medical equipment such as MRI, LINAC and tomography, is lower, resulting in lower capex per bed for the company as compared to Rs9-11mn for multi-specialty hospitals (excluding land). RAINBOW's strong control on capex spending, demonstrated capability in managing tertiary & quaternary care and high ARPOBs have led to industry-leading margins and RoCE.

Exhibit 18: RAINBOW capex/ bed is lower than other multi-specialty hospitals



Source: Company, PL

Exhibit 19: RAINBOW RoCE is highest among peers



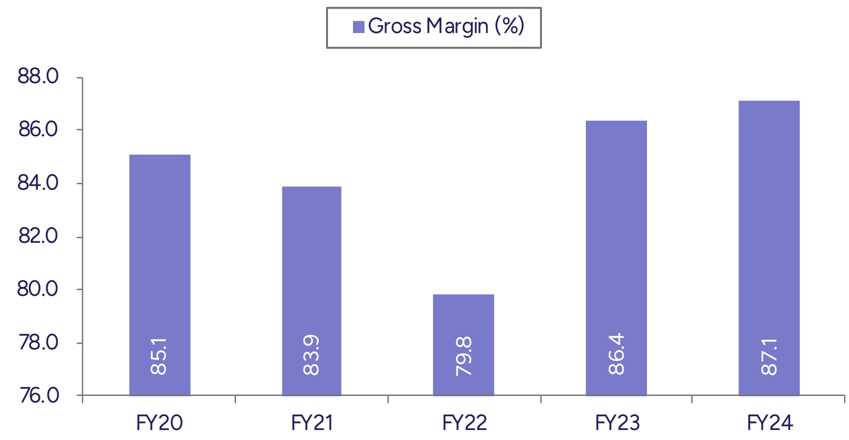
Source: Company, PL

Strong ARPOB range of Rs50-55k over the last 3 years, because of its focus on high-end tertiary and quaternary care, efficient operations, diversified revenue streams, and limited reliance on government schemes

Cost optimization strategy driving higher GM

RAINBOW focusses on centralized and standardized procurement of medical equipment, consumables and pharmaceuticals, thus ensuring economic sourcing. This eventually reduces pharmacy & consumables cost, and capex (including equipment), and boosts gross profit margins. The strategy has led to gross profit margin increasing by 200bps YoY over FY20-24. Further, the company has started "Butterfly Essentials" stores, to cater to the unique needs of women and children. This can also indirectly support cost optimization by potentially increasing patient volumes and improving overall operational efficiency, leading to better resource utilization and potentially lower costs per patient.

Exhibit 20: RAINBOW GM increases by 200bps over FY20-24



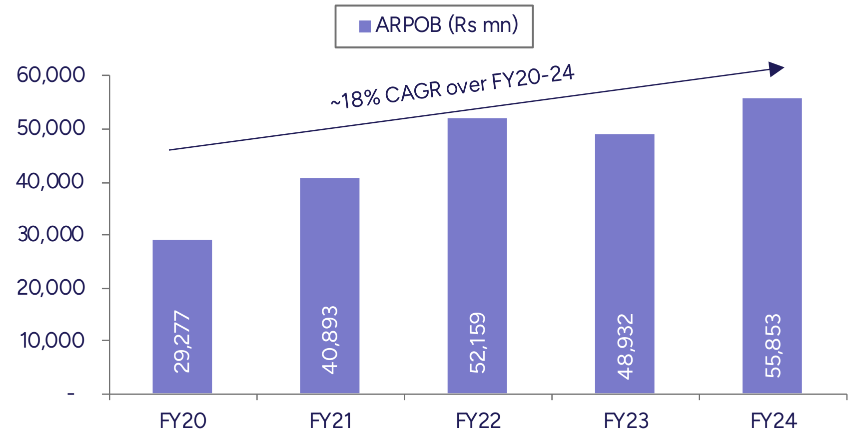
Source: Company, PL

Focus on tertiary, quaternary pediatrics ensures healthy ARPOB

Despite lower occupancy rates of 45-50% compared to 60-70% for multi-specialty hospitals, RAINBOW's ARPOB at Rs55k is comparable to larger hospital players, because of its focus on high-end tertiary and quaternary care volumes, lower ALOS leading to faster turnaround, diversified revenue streams with higher OP revenue contribution, and limited reliance on government schemes.

- High-end tertiary and quaternary pediatric services contribute to ~40% of its revenue, whereas OP services contribute to ~30% of revenue.
- RAINBOW's full-time doctor engagement model ensures consistent access to specialized care, attracting patients seeking advanced medical treatment.
- The company's lower ALOS at 2.5-2.7 days compared to 4-5 days for other multi-specialty hospitals, enables faster patient turnover and improved operational efficiency.
- In contrast to other multi-specialty hospitals that rely on government schemes for 10-20% of their revenue, RAINBOW primarily generates revenue from cash-paying and insurance-covered patients.

Exhibit 21: Better case and payor mix aids higher ARPOB



Source: Company, PL

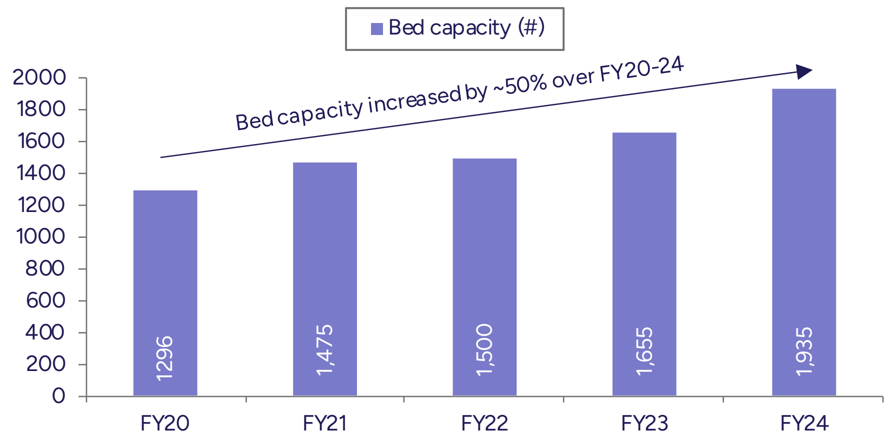
Network expansion plan especially through spokes and entering new geographies

Since its IPO listing in May'22, RAINBOW has demonstrated significant growth, commissioning 435 beds, representing 22% of its existing bed capacity.

RAINBOW expanded its bed capacity by ~50% to 1,935 beds during FY20-24. During FY24, the company aggressively expanded its geographic footprint and capacity, successfully commissioning 3 new spoke hospitals in key metropolitan areas and enhancing capacity at existing facilities. This strategic expansion resulted in the addition of 280 beds, the highest annual bed addition in the company's history. In FY24, RAINBOW added beds in Himayat Nagar, Hyderabad, Sarjapur, Bengaluru, and Anna Nagar, Chennai, along with new blocks at Hyder Nagar and LB Nagar units in Hyderabad.

Asset-light hub-and-spoke model fostering centralized expansion (highest annual bed addition of 280 in FY24 in the company's history) and improved financial efficiency

Exhibit 22: Bed capacity up by ~50% over FY20-24



Source: Company, PL

Plans to operationalize an additional 780 beds over H2FY25-28E

40% bed capacity expansion over H2FY25-28E

RAINBOW operationalized 1,523 of 1,935 bed capacity as of Q2FY25 end. The management has announced plans to operationalize additional 780 beds over H2FY25-28E through the addition of spokes across Bengaluru and 1 regional hub each in Coimbatore (Tamil Nadu), Rajahmundry (Andhra Pradesh) and NCR. RAINBOW has already operationalized 280 beds in FY24 and is likely to operationalize another 380 beds over H2FY25-27E. Historically, the company has achieved breakeven earlier than anticipated. We expect OPM to sustain at ~33% in FY25E despite capacity additions and margin improvement of ~50bps over FY25-27E.

The strategic expansion plan is for strengthening its presence in the southern region. It is developing a spoke hospital in Rajahmundry (~100 beds), Hennur (~60 beds), Electronic City (~90 beds), and Coimbatore (~130 beds). These projects are progressing as planned, though with a slight delay in some facilities. Rajahmundry, Hennur, Electronic City and Coimbatore hospital facilities expected to commence operations in Q4FY25, H2FY26, Q3FY26 and by end-FY26, respectively. Additionally, 2 new hospitals in Gurugram, NCR, are in the design phase with a total capacity of ~400 beds, which are likely to be operationalized by H1FY28.

Exhibit 23: Expansion plan - Almost 40% bed addition over FY25E-28E

Cluster/ City expansion	Current capacity (beds)	FY25E	FY26E	FY28E	Total beds
Hyderabad	940				940
Bengaluru	442		Hennur (~60) and Electronic City (~90)		592
Tamil Nadu	270		Coimbatore (~130)		400
NCR	24			Gurugram Sector 44 (~300) Sector 56 (~100)	424
Andhra Pradesh	259	Rajahmundry (~100)			359
Total beds	1,935	100	280	400	2,715

Source: Company, PL

Note: NCR's bed Count excludes 130 beds at Malviya Nagar where Rainbow Hospitals provides Medical services.

Diversifying its geographical reach in India

RAINBOW has established a dominant regional presence in the high-growth southern India markets, particularly in Andhra Pradesh and Telangana. This established base has facilitated further expansion into neighboring states like Karnataka and Tamil Nadu. As a part of its strategy to expand outside of South India, RAINBOW has expanded into the Delhi-NCR market through a) an O&M contract with Madhukar Trust Hospital in 2017 and b) the acquisition of Rosewalk Luxury Hospital (a premium childbirth center) in 2019.

RAINBOW's current operations at Madhukar unit in NCR, underpinned by a consultant-led doctor engagement model, function within a trust structure where it holds less than 40% equity. This ownership arrangement has impacted the Madhukar unit's financial performance, and it achieved EBITDA break-even only in the fourth year, a slower trajectory compared to its historical track record. However, this period proved valuable as the company gained crucial insights into the NCR market and successfully cultivated relationships with prominent medical professionals. These established connections will serve as a strong foundation for future growth initiatives.

Strategically acquired 2 land parcels in Gurugram through a competitive e-auction for a hub and a spoke with combined bed capacity of ~400 to be operationalized by H1FY28

Enhancing its presence in NCR through greenfield projects - RAINBOW is strategically expanding its presence in the NCR through greenfield projects. In 2024, the company successfully acquired 2 land parcels in Gurugram (located in Sector 44 and 56) via a competitive e-auction conducted by Haryana government for Rs1.8bn. These acquisitions will enable RAINBOW to establish a hub-and-spoke model in the region. The hub hospital in Sector 44, with a capacity of ~300 beds, and the spoke hospital in Sector 56, with ~100 beds, are currently in the design phase. While the company was initially aiming for operationalization in FY27, regulatory approvals and construction timelines suggest a more realistic timeline of FY28. These greenfield projects, once operational, will provide RAINBOW with greater control over operations and profitability, and further solidify its position as a leading pediatric healthcare provider in India.

Strong traction in new IVF centers

In FY24, RAINBOW established 8 new IVF centers, taking the count to 11. The first 3 IVF centers were located in Bengaluru, Vijayawada and Hyderabad. Its IVF centers are profitable due to lower capex requirement as it uses infrastructure of existing units to start the centers. Establishing an IVF center at an existing hospital typically requires a capex of ~Rs15mn, which includes the acquisition of specialized equipment, and recruitment of 2 doctors with expertise in fertility treatments and necessary support staff.

IVF services to be expanded in remaining hospitals also

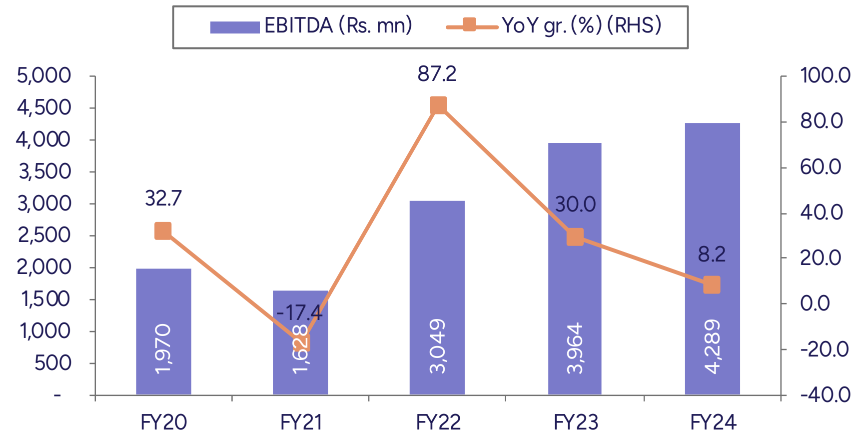
The management highlighted strong traction in footfall at new IVF centers. We anticipate these IVF centers will make meaningful contribution to overall profitability in the years ahead. Further, the management has plans to expand IVF services to more hospitals.

Strong seasonality to drive significant growth in FY25

Healthy return ratios and margins

RAINBOW enjoys high RoCE of ~25% (adjusted for rentals) and RoIC of ~30% as of FY24. The superior return ratios indicate efficient capital allocation and strong profitability. Despite a weak FY24, the company was able to maintain its OPM at +33%. FY24 growth was impacted by factors like a high COVID base, weak seasonality, and new capacity addition. However, strong seasonality, ramp-up in new capacities, and improved occupancy are expected to drive significant growth in FY25 and beyond. Overall, we see pre-IND AS margins to sustain at 27-28% vs. 20-25% for most peers. RAINBOW will continue to see improved return ratios as new capacities ramp up on the back of asset-light hub-and-spoke model and improving efficiency. RAINBOW's EBITDA grew strongly at 26%+ CAGR over FY20-23 but faltered in FY24. IP footfall increased by 1% YoY compared to 7% CAGR over FY20-24, whereas OP volumes increased ~3% YoY compared to ~8% CAGR. We believe growth momentum will pick up from FY25 on the back of strong seasonality and ramp-up in new capacities, which will lead to better occupancy.

Exhibit 24: Moderate EBITDA growth in FY24 due to weak seasonality & new capacity



Source: Company, PL

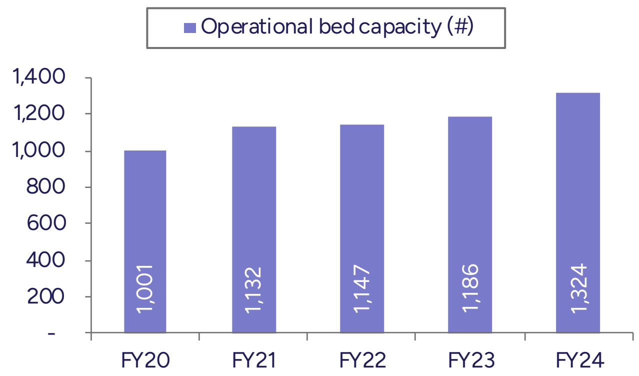
Blended ARPOB at >Rs55.8k/day and occupancy at ~48% as of FY24

Strong operating metrics

RAINBOW derives almost 100% of its revenue from cash and insurance patients with a miniscule contribution from the government-scheme business, compared to other hospitals. In FY24, 49.4% of the revenue came from cash and self-payers and 50.6% from the insurance segment. This, along with a higher proportion of OP revenue and a focus on tertiary and quaternary care services, allows the company to enjoy higher ARPOB and margins. We believe current ARPOB levels will see a flat to marginal decline in FY25 and thereafter grow by 5-7% annually, in line with industry standards. Currently, its blended ARPOB is above Rs55k/day and occupancy at ~50%. Lower ALOS metrics demonstrate faster turnaround relative to other adult hospitals.

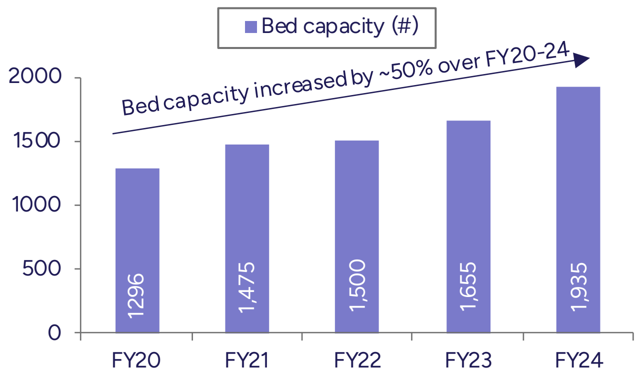
The company's strategic network expansion, coupled with its focus on clinical excellence and patient care, positions it well to capitalize on the growing demand for specialized pediatric care. The company's strong negotiating power with insurance companies, evident in its robust ARPOB growth of ~18% CAGR over FY20-24 and improved payor mix, further strengthens its position. RAINBOW's strong financial profile enabled it to fund its 435-beds expansion through internal accruals, without external debt over FY20-24. Characterized by a net cash balance sheet of Rs5.8bn+ as of Q2FY25 and healthy OCF run rate of Rs2.3-3.5bn p.a., a strong financial foundation positions the company for sustained growth and value creation.

Exhibit 25: Operational capacity up by 30% over FY20-24



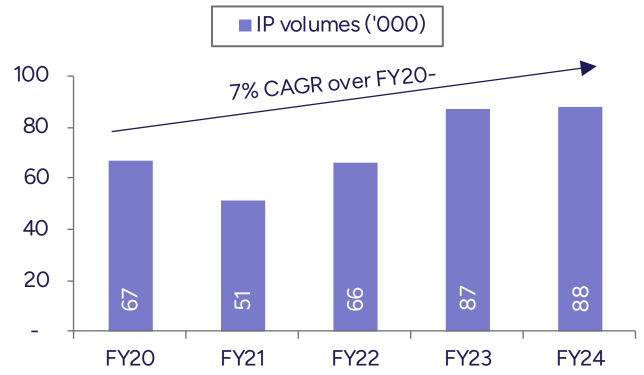
Source: Company, PL

Exhibit 26: Bed capacity increases by ~50% over FY20-24



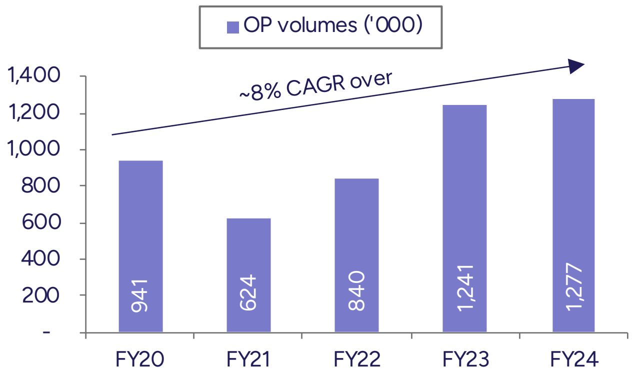
Source: Company, PL

Exhibit 27: IP volumes increased by 7% CAGR over FY20-24



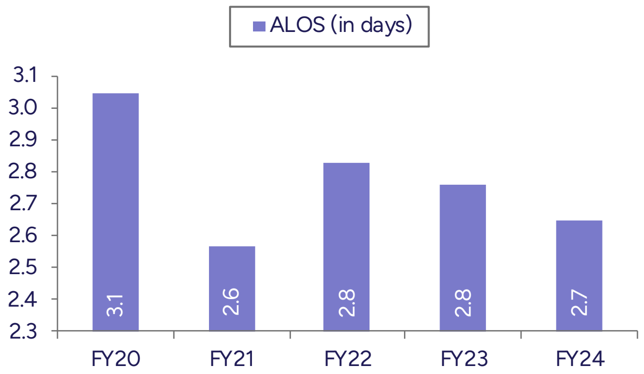
Source: Company, PL

Exhibit 28: OP volumes grew by 8% CAGR over FY20-24



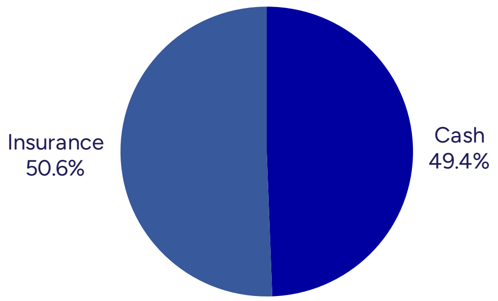
Source: Company, PL

Exhibit 29: ALOS down by 13% since 2020



Source: Company, PL

Exhibit 30: Nil contribution from govt schemes as of FY24



Source: Company, PL

Financial Projections

Revenue CAGR of ~19% estimated over FY24-27E

RAINBOW exhibited robust revenue growth over FY21-24, doubling its topline to Rs13bn at a healthy 26% CAGR. Typically, Q1 and Q4 are seasonally weak quarters for the pediatric business due to school examinations and vacations for children. In contrast, Q2 and Q3 are strong quarters. While the company saw a moderate FY24, on account of a high COVID base and weak seasonality related infections/ ailment, we expect growth to recover in FY25 aided by strong seasonality and ramp-up of new capacities. Currently, occupancy is below 50% occupancy and has potential to go up as some of the new capacities (280 beds) commercialized in FY24 are ramping up. Further, the company is adding 380 beds across Hennur, Electronic City, Rajahmundry and Coimbatore over H2FY25-27E, which will drive IP and OP volumes.

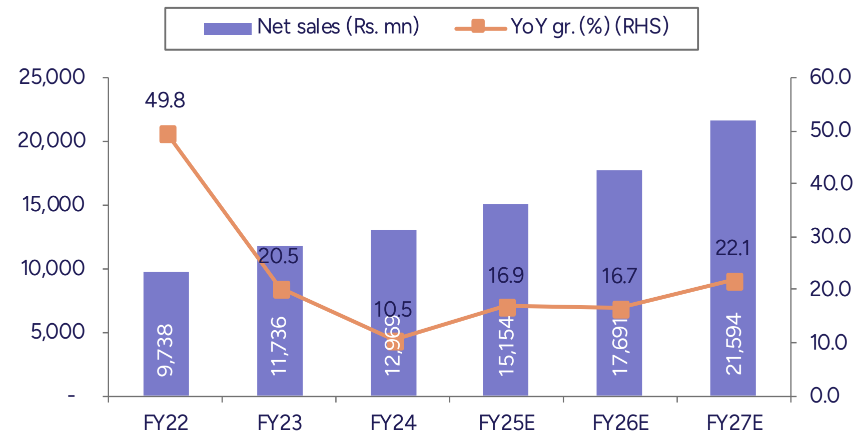
We forecast revenue to clock 19% CAGR over FY24-27E, to reach Rs21.6bn, led by a likely increase in occupancy rates, steady ARPOB and bed expansion.

Exhibit 31: Operating metrics projections

Particular (Rs mn)	FY24	FY25E	FY26E	FY27E
Bed capacity (#)	1,935	1,935	2,035	2,315
Operational bed capacity (#)	1,324	1,525	1,670	1,910
ARPOB (Rs mn)	55,853	55,853	58,646	61,578
Average occupancy (%)	47.9	48.6	49.3	50.2

Source: Company, PL

Exhibit 32: Recovery in occupancy and new bed addition to drive growth



Source: Company, PL

EBITDA CAGR of ~19% estimated over FY24-27E

Despite weak FY24, OPM maintained at 33.4%

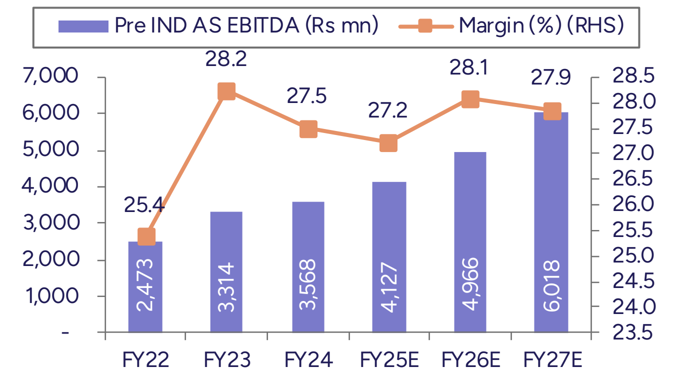
The company's pre-IND AS EBITDA has more than tripled over the last 3 years, from Rs1.1bn in FY21 to Rs3.6bn in FY24. Pre-IND AS EBITDA margins have also gone up from 21% in FY20 to 27.7% in FY24. Margins saw a dip of ~100bps in FY24 given the start-up cost of new capacities, which came on stream in H2FY24.

Operating leverage will be driven by recovery in occupancy and bed addition at existing facilities which are likely to break even in 12-18 months

In the past, RAINBOW has successfully reached a point of profitability (EBITDA breakeven) within 12 to 18 months. This achievement is facilitated by the strategic placement of most of the spokes in existing locations such as Hyderabad, Bengaluru, and Chennai, where infrastructure and support systems (Hub) are already in place. We anticipate margins to sustain at current levels. The Gurugram units are scheduled to become operational in FY28. By this time, a significant portion of new operational facilities will turn matured and stabilized their operations, minimizing any potential impact on margins.

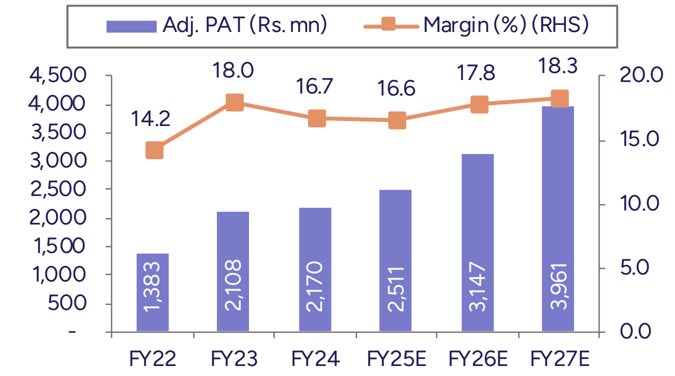
We forecast healthy pre-IND AS margins of 27.9% by FY27E, with EBITDA growth of 19% CAGR and PAT growth of 22% CAGR over FY24-27E.

Exhibit 33: Pre-Ind AS margins to sustain at 27-28%



Source: Company, PL

Exhibit 34: PAT to improve at 22% CAGR over FY24-27E

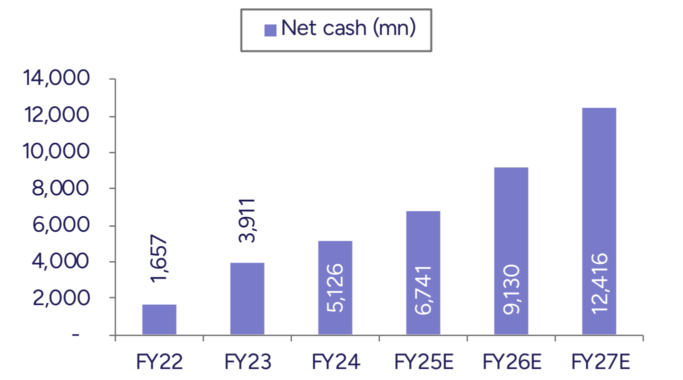


Source: Company, PL

Healthy balance sheet, strong cash flow visibility

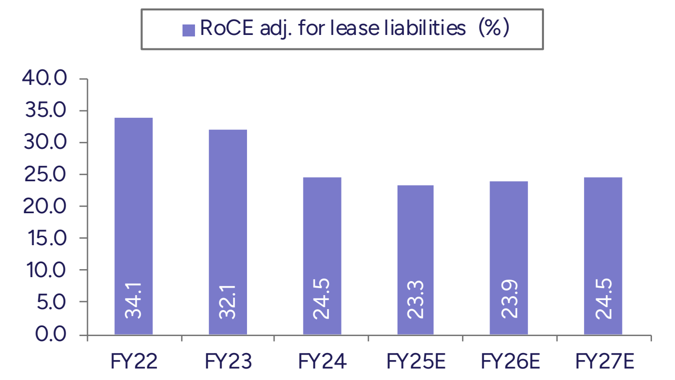
RAINBOW has a strong balance sheet, with net cash of Rs5.2bn as of FY24 end. We have factored in a capex of Rs6-7bn over FY24-27E, largely toward new capacity expansion across Gurugram, Hennur, Rajahmundry and Coimbatore. We expect the company to generate Rs16.5bn+ of OCF over FY24-27E. Despite cumulative capex of Rs6-7bn over FY24-27E, RAINBOW will have net cash of Rs13.2bn+ in FY27E. This will enable the company to explore M&A opportunities in newer markets.

Exhibit 35: Strong net cash position augurs well for M&A



Source: Company, PL

Exhibit 36: RoCE at ~25% stands healthy vs. peers



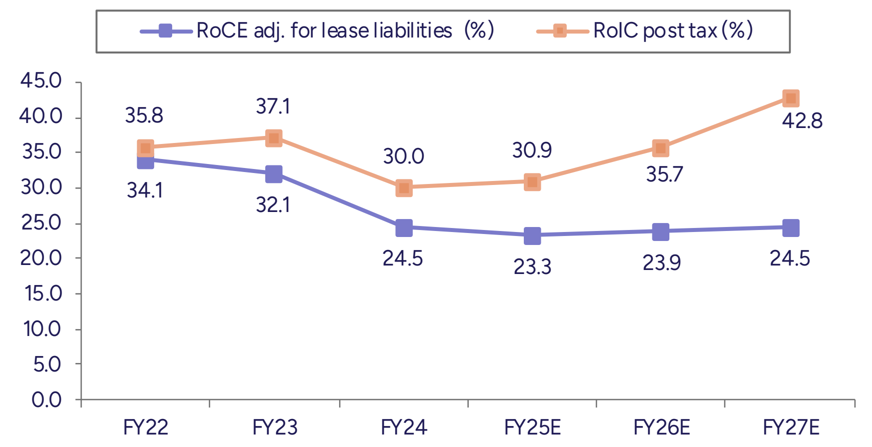
Source: Company, PL

Growth and return ratios to recover as new capacities start contributing, occupancies improve across mature and new units

Return ratios to remain healthy

The company's RoIC (post tax) at 30%, is superior to most peers. We expect EBITDA/PAT CAGR of 19%/ 22% over FY24-27E with healthy RoCE/RoIC (post tax) of ~25%/43% adjusted for lease liabilities.

Exhibit 37: Healthy RoCE & RoIC profile (adjusted for lease)



Source: Company, PL

Peer comparison

Exhibit 38: FY24 occupancy impacted due to new units

Occupancy (%)	FY20	FY21	FY22	FY23	FY24
APHS	68.0	55.0	63.0	64.0	65.0
ASTERDM	61.0	56.0	66.0	68.0	68.0
FORH	68.0	55.0	63.0	67.1	65.0
HCG	42.9	40.8	58.2	65.4	67.1
JLHL	59.7	45.3	54.0	62.6	63.8
KIMS	80.5	78.6	79.8	69.3	71.9
MAXHEALT	73.4	65.0	73.4	75.7	75.0
RAINBOW	**56.3**	**34.2**	**44.6**	**55.4**	**47.9**

Source: Company, PL

Exhibit 39: Healthy ARPOB despite lower surgical mix

ARPOB (Rs '000/day)	FY20	FY21	FY22	FY23	FY24	FY20-24 CAGR (%)
APHS	37.4	43.2	45.3	51.7	57.5	11.4
ASTERDM	27.7	30.1	33.5	36.5	40.1	9.7
FORH	43.6	43.3	49.4	55.1	60.8	8.7
HCG	32.8	32.6	37.8	38.0	41.8	6.2
JLHL	42.0	43.9	48.7	51.0	54.9	6.9
KIMS	18.3	20.6	25.3	29.9	31.9	14.9
MAXHEALT	50.5	50.8	58.0	69.0	76.0	10.8
NARH	26.6	28.5	32.3	34.8	38.4	9.6
RAINBOW	**29.3**	**40.9**	**52.2**	**48.9**	**55.9**	**17.5**

Source: Company, PL

Exhibit 40: Lower ALOS facilitates faster patient turnaround

ALOS (days)	FY20	FY21	FY22	FY23	FY24
APHS	4.0	4.2	4.0	3.4	3.3
ASTERDM	3.5	3.9	3.7	3.4	3.4
FORH	3.2	3.6	3.7	3.7	3.7
JLHL	4.0	4.5	4.3	4.0	3.9
KIMS	4.3	5.5	4.8	4.1	4.1
MAXHEALT	4.3	5.2	4.6	4.2	4.2
NARH (India)	3.5	4.6	4.8	4.5	4.4
RAINBOW	**3.1**	**2.6**	**2.8**	**2.8**	**2.6**

Source: Company, PL

Exhibit 41: IP volumes to pick up supported by new capacities

IP volumes ('000)	FY20	FY21	FY22	FY23	FY24	FY20-24 CAGR (%)
APHS	478	353	460	541	570	4.5
ASTERDM	162	138	182	226	254	11.9
JLHL	27	25	35	43	49	16.1
KIMS	141	117	137	177	191	7.9
NARH (India)	286	156	191	229	236	-4.7
RAINBOW	**67**	**51**	**66**	**87**	**88**	**7.1**

Source: Company, PL

Exhibit 42: OP volumes clocked ~8% CAGR in FY20-24

OP volumes ('000)	FY20	FY21	FY22	FY23	FY24	FY 20-24 CAGR (%)
APHS	1,628	1,160	2,514	1,879	1,923	4.3
ASTERDM	1,980	1,410	2,030	2,700	3,050	11.4
JLHL	515	423	611	731	831	12.7
KIMS	1,138	830	1,014	1,462	1,588	8.7
MAXHEALT	2424	1,415	2,008	2,282	2,505	0.8
RAINBOW	**941**	**624**	**840**	**1,241**	**1,277**	**7.9**

Source: Company, PL

Exhibit 43: 323 beds operationalized over FY20-24

Operational beds (#)	FY20	FY21	FY22	FY23	FY24	% of beds increased or decreased over FY20-24
APHS	7,491	7,409	7,875	7,860	7,945	6
ASTERDM	2,530	2,686	2,899	3,304	3,552	40
FORH	3,652	3,858	3,931	3,975	4,024	10
HCG	2,071	2,036	1,702	1,833	1,923	-7
JLHL	496	666	757	802	829	67
KIMS	2,080	2,246	2,246	2,960	2,989	44
MAXHEALT	3,242	3,271	3,271	3,282	3,374	4
NARH	5,660	5,958	6,011	5,778	5,573	-2
RAINBOW	**990**	**1,053**	**1,147**	**1,186**	**1,324**	**34**

Source: Company, PL

Exhibit 44: RAINBOW has the best OPM among its peers

Pre-IND AS margins (%)	FY20	FY21	FY22	FY23	FY24
APHS	17.4	12.2	21.6	23.7	23.1
ASTERDM		8.1	13.2	13.4	14.0
FORH	11.4	6.6	14.8	16.4	18.2
HCG	10.5	6.2	12.4	13.4	12.6
JLHL	17.8	13.8	20.9	22.6	22.3
KIMS	19.5	24.9	27.9	23.4	22.3
MAXHEALT	13.2	15.9	26.1	27.2	26.8
NARH (India)	12.2	5.1	16.2	20.1	21.8
RAINBOW	**20.9**	**17.0**	**25.4**	**28.2**	**27.8**

Source: Company, PL

Valuations & View

Through its focus on providing highly specialized pediatric and maternity services, RAINBOW has carved a niche for itself and gained a competitive advantage over its peers within the Indian healthcare landscape. RAINBOW is thus well positioned to capitalize on growth prospects in the sector resulting from the asset-light hub-and-spoke model, full-time doctor engagement model and aggressive expansion plans. The company saw moderate FY24 due to weak seasonality related infections/ ailments and a high COVID base. However, given the expansion plans and scale-up in occupancy, the business is expected to gain growth momentum from FY25. We believe strategic expansion across its core markets in South India will drive sustainable growth.

Revenue to grow 19% CAGR over FY24-27E aided by the scale-up in occupancy and new bed addition

Overall, we expect 19% revenue CAGR over FY24-27E aided by the scale-up in occupancy and new bed addition. The company added 280 beds toward the end of FY24 and is likely to commission 780+ beds (more than 50% expansion on existing operational beds) over FY24-28E. Overall, we expect EBITDA/ PAT CAGR of 19%/ 22% over FY24-27E with healthy RoE/RoCE of 21%/25%.

We value RAINBOW at 28x EV/EBITDA on FY27E and initiate coverage with 'BUY' rating with TP of Rs1,785/share.

Exhibit 45: Peer valuation

Peer hospital companies	EV/EBITDA (x)		PE (x)		ROE (x)		ROCE (x)		PB (x)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Apollo Hospitals Enterprise Ltd	27.7	22.7	48.5	37.4	23.0	24.2	28.1	30.4	10.1	8.1
Aster DM Healthcare Ltd	27.5	21.8	82.9	65.2	14.4	16.1	16.0	18.6	10.6	9.5
Fortis Healthcare Ltd	29.8	25.4	53.9	43.6	10.1	11.5	13.6	15.2	5.8	5.3
HealthCare Global Enterprises Ltd	17.2	14.8	50.9	32.0	12.7	17.2	18.0	19.4	6.4	5.3
Krishna Institute of Medical Sciences Ltd	32.8	26.3	60.3	45.8	18.0	20.0	18.4	21.0	10.4	8.9
Max Healthcare Institute Ltd	39.7	31.6	56.0	42.9	17.5	19.4	19.2	21.6	9.1	7.7
Narayana Hrudayalaya Ltd	19.0	16.3	28.2	23.2	23.9	23.5	21.2	22.7	6.1	4.9
Rainbow Children's Medicare Ltd	**30.6**	**25.2**	**51.4**	**40.8**	**19.7**	**21.0**	**23.9**	**24.5**	**9.4**	**7.9**
Global Health Ltd (Medanta)	26.5	22.5	44.8	37.4	17.1	17.5	19.4	21.0	7.2	6.1
Jupiter Life Line hospitals Ltd	27.1	23.5	39.3	34.6	17.5	16.9	20.5	19.7	6.3	5.4

Source: Company, PL

Note: 1) EV/EBITDA is on pre-IND AS basis

2) Fortis, ASTERDM and KIMS EV/ EBITDA are adjusted for minority stake

3) Medanta represents consensus numbers

4) ASTERDM represents a combined entity (ASTERDM + QCIL)

Key Risks

High concentration in Hyderabad cluster: RAINBOW derives more than 50% of its revenue from its 8 hospitals (total 940 beds) in the Hyderabad cluster. Increased competition, reduction in patient footfall, or regulatory changes could have a material impact on the revenue and business.

Failure to replicate success in newer clusters: RAINBOW's proven track record in Hyderabad and Bengaluru, executed through the asset-light hub-and-spoke model, has positioned the company for significant growth. However, potential challenges in replicating this success in newer clusters like NCR, primarily due to land and equipment procurement delays and market dynamics, could constrain growth. Higher capex per bed for the 300-bed greenfield hospital in NCR and differing market dynamics compared to the southern markets may extend the breakeven timeline, impacting the overall financial performance.

Competition from other hospital players: Established players and new entrants in the pediatric healthcare space, such as Cloudnine Hospital (children's clinic), Motherhood Hospitals (Rhea Healthcare), Lotus Hospitals, Surya Hospitals and Apollo Cradles, could pose a threat to RAINBOW's market share.

Attrition or shortage of senior doctors: While RAINBOW has a binding agreement with full-time doctors, it cannot stop them from leaving prematurely. Also, as the company expands into newer geographies, any issue in recruiting good doctors or implementing the full-time engagement model can affect the business materially.

Inability to renew leases: Almost all its hospitals are on lease. Generally, RAINBOW opts for a 20-year lease with an option to extend to 30 years. Inability to renew existing leases or lease new units may significantly impact its operational profitability.

Regulatory risks: Capping of healthcare service prices, margins, and prices of healthcare procedures and diagnostics by the government could limit RAINBOW's pricing ability. This could squeeze profitability and hinder growth.

Seasonality risk: RAINBOW's business is affected by seasonality. Q1 and Q4 are traditionally weak quarters due to school vacations, examinations, festivals, etc., leading to lower occupancy. The company's significant allocation of resources, 1/3rd of total bed capacity, to ICUs, particularly NICUs and PICUs, leads to capacity constraints and utilization fluctuations throughout the year, given the specialized nature and non-interchangeable use of these beds.

Board of Directors and Key Management Personnel

Exhibit 46: Board of Directors

Name	Designation	Experience
Dr Ramesh Kancharla	Promoter and Chairman & Managing Director	He holds Bachelor of Medicine and Bachelor of Surgery (MBBS), and Doctor of Medicine (MD) in Paediatrics degrees. He is a member of the Royal College of Physicians, UK. He has been associated with RAINBOW for over 25 years.
Dr Dinesh Kumar Chirla	Whole-time Director	He has over 21 years of experience in the healthcare industry and holds MBBS, MD in Paediatrics, and MD in Neonatology degrees. He is the Director of Intensive Care for the Rainbow Group.
Dr Adarsh Kancharla	Promoter and Non-Executive Director	He was appointed on the Board on 24th Jan'24 and holds MBBS and MD in Paediatrics degrees from Sri Ramachandra Institute of Higher Education and Research, Chennai, Tamil Nadu. He is the son of Dr Ramesh Kancharia.
Mr Aluri Srinivasa Rao	Independent Director	He has over 22 years of experience and holds a Bachelor of Pharmacy (Honours) degree from the Birla Institute of Technology & Science, Pilani, and Master of Business Administration from Osmania University, Hyderabad. He has worked at Natco Pharma Limited in various capacities, headed operations as the Managing Director at Morgan Stanley Private Equity Asia, and also worked at ICICI Venture.
Dr Anil Dhawan	Independent Director	He has over 25 years of experience in the healthcare industry and holds an MD in Pediatrics from the Post Graduate Institute of Medical Education and Research, Chandigarh. He has worked as a pediatric hepatologist at King's College Hospital, London.
Ms Sundari Raviprasad Pisupati	Independent Director	She has over 27 years of experience as a lawyer in India and holds a Bachelor of Laws degree from the National Law School of India University, Bengaluru, and a master's in law from Columbia Law School, New York. She is a licensed lawyer in New York and India.
Mr Santanu Mukherjee	Independent Director	He has over 37 years of experience in the banking sector and holds a Bachelor of Science (Honours) degree from Presidency University, Kolkata. Prior to this, he was the Managing Director of State Bank of Hyderabad and also headed French operations of State Bank of India in Paris.

Source: Company, PL

Exhibit 47: Key Management Personnel

Name	Designation	Experience
Mr Vikas Maheshwari	Chief Financial Officer	He has over 25 years of experience in corporate finance, mergers & amalgamation, deal structuring, strategy and treasury management. He joined RAINBOW in 2023, and prior to this, was the CFO of KIMS since 2017.

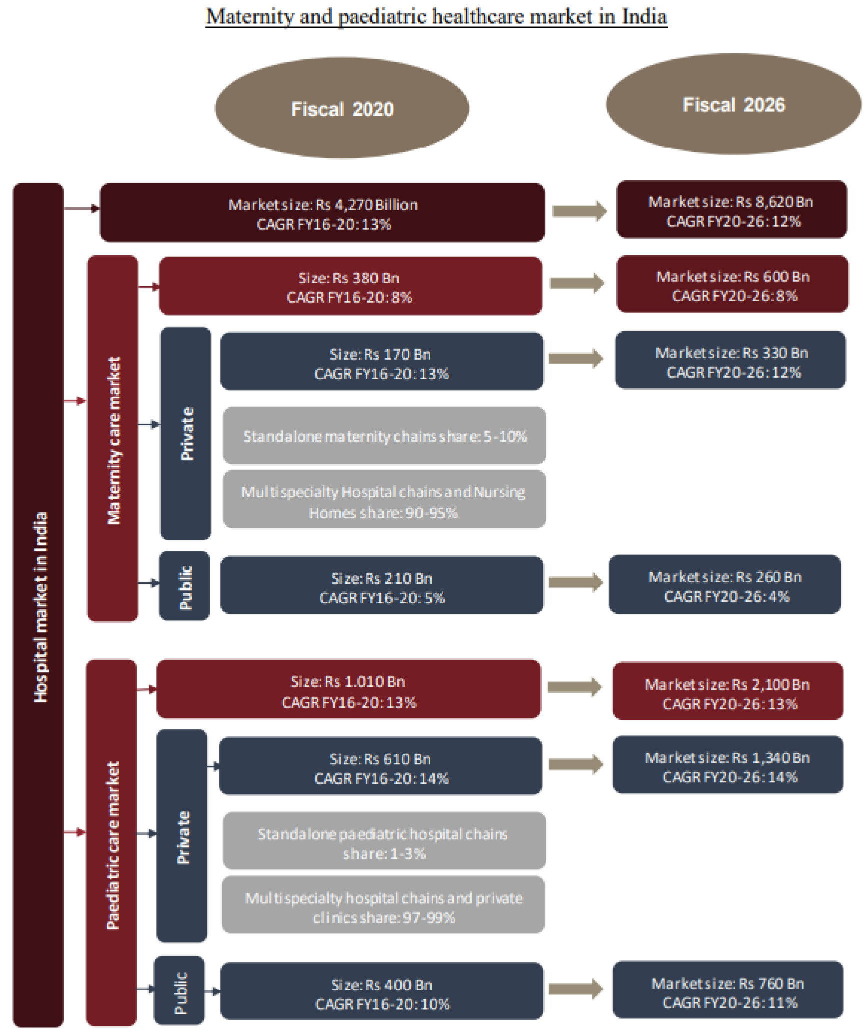
Source: Company, PL

Healthcare Industry - Pediatrics and Maternity

Indian healthcare sector is expected to grow at 12% CAGR to Rs8,620bn over FY21-26E, while pediatrics and maternity markets are expected to grow marginally higher at ~17% and 9-10%, respectively. Dominated by private entities, which account for 60–70% of the national healthcare expenditure, the healthcare market continues to expand. However, very few multi-specialty pediatric hospital chains in India are focusing on children's healthcare requirements.

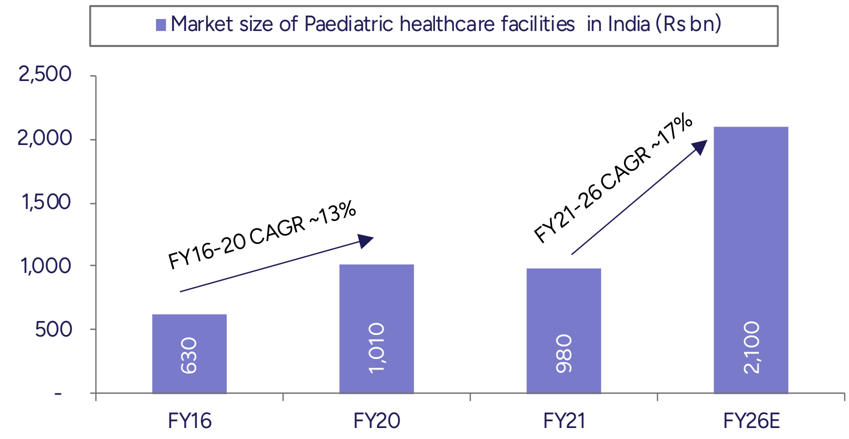
Pediatrics and maternity markets to grow marginally higher at ~17% and 9-10%, respectively, over FY21-26E

Exhibit 48: Pediatric & maternity healthcare market in India over FY20-26E



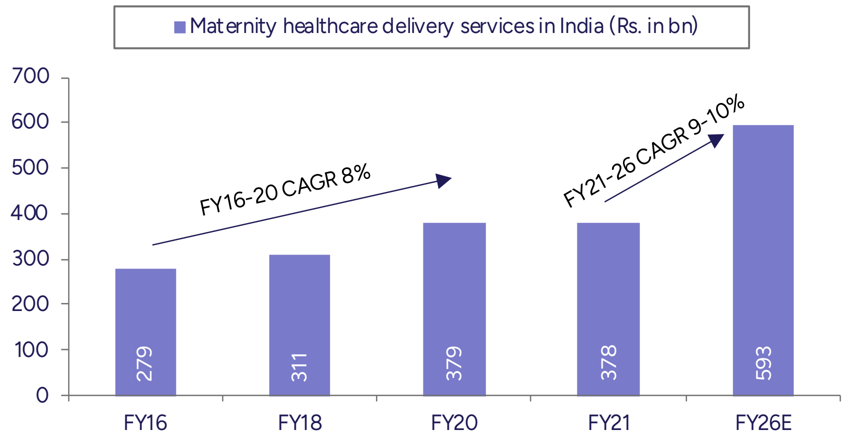
Source: Company, PL

Exhibit 49: Pediatrics market to grow at ~17% CAGR over FY21-26E



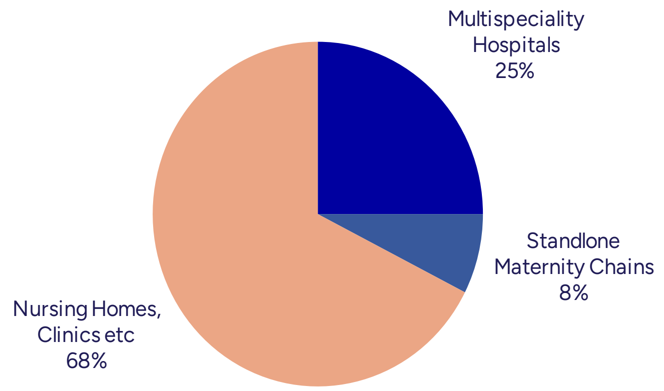
Source: Company, CRISIL research, PL

Exhibit 50: Maternity market to grow at 9-10% CAGR over FY21-26E



Source: Company, CRISIL research, PL

Exhibit 51: Segmentation of private maternity hospitals



Source: Company, CRISIL Research, PL

Demographics of India

About 29% of India's population is below the age of 15 years, driving the demand for pediatric healthcare services. Thus, children, the country's future workforce, form a large chunk of the population, and India offers a large addressable pediatric market. As per Industry reports, the private pediatrics market in India is projected to clock a robust CAGR of ~17% over FY21-26E. However, the sector remains nascent compared to developed markets. The US, with 1/5th of India's population, boasts over 200 children's hospitals, highlighting the gap. Notably, 97% of US pediatric care occurs in specialized facilities, and we see a similar trend emerging in India with a healthy growth potential.

Rising disposable income fueling healthcare affordability

About 29% of India's population is below the age of 15 years, driving the demand for pediatric and maternity healthcare services

The upward trend in per capita income in India presents a compelling tailwind for the healthcare sector. Projections indicate a robust 70% increase in India's per capita income by FY30, reaching ~US$4,000 from the current US$2,450. This translates into a rapidly expanding middle class with greater disposable income, fueling demand for higher quality healthcare services. Increasing urbanization, along with growing awareness of health issues amongst parents, is leading to increased dependency on healthcare service providers for early diagnosis and treatment.

Rising insurance penetration unlocking demand for pediatric & neonatal care

The healthcare landscape in India is undergoing a transformative shift driven by surging health insurance penetration. From a mere 10% in 2019, health insurance coverage has more than doubled to reach 26% as of 2023. This trend is expected to continue, with the health insurance market projected to grow at a robust CAGR of 11.55% from 2023 to 2030. By reducing out-of-pocket expenses, these programs effectively fuel the growth of the healthcare delivery system, with pediatric and neonatal care expected to be key beneficiaries.

Growth drivers for maternity hospitals in India

Health insurance market projected to grow at a robust CAGR of 11.55% from 2023 to 2030

- **Rise in working women population in urban areas:** With the increase in working women population in urban areas, awareness about health and affordability will also increase. Women are more aware of the pre- and post-natal healthcare services and tend to spend higher for better services. This has resulted in increasing demand for private hospitals and hospital chains.

- **Shift from traditional maternity practices:** Behavioral changes have resulted in an increase in institutionalized deliveries over the past decade. The percentage of institutionalized deliveries has increased from 66.6% in FY16 to 71% in FY21. This is due to the younger population preferring better healthcare facilities compared to traditional home delivery. Even though the institutionalized delivery percentage has increased, 29% of deliveries are still not happening in hospitals. Institutionalized deliveries are expected to continue to increase.

- **Experiential value-added services:** Birth of a child is an occasion for celebration, and private hospitals look at this as a marketing opportunity by offering value-added service that will increase the overall perceived care. Hospitals are offering services like virtual baby showers, which started during the COVID-19 pandemic, photography sessions, etc.

- **Rise in demand for healthcare chains:** Specialty maternity and pediatric chains are preferred compared to nursing homes due to availability of specialized doctors and wide array of services in the former. Maternity and pediatric chains have witnessed strong growth, exceeding 30% CAGR over FY16-20, led by increase in demand and penetration. The preference for hospital chains is expected to increase with penetration of larger brands.

Financials

Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Net Revenues	**12,969**	**15,154**	**17,691**	**21,594**
YoY gr. (%)	*10.5*	*16.9*	*16.7*	*22.1*
Cost of Goods Sold	1,653	2,046	2,388	2,915
Gross Profit	11,316	13,109	15,303	18,678
Margin (%)	*87.3*	*86.5*	*86.5*	*86.5*
Employee Cost	1,762	2,079	2,432	2,846
Other Expenses	5,266	6,054	6,932	8,627
EBITDA	**4,289**	**4,975**	**5,939**	**7,205**
YoY gr. (%)	*8.2*	*16.0*	*19.4*	*21.3*
Margin (%)	*33.1*	*32.8*	*33.6*	*33.4*
Depreciation and Amortization	1,121	1,369	1,595	1,861
EBIT	**3,168**	**3,606**	**4,344**	**5,344**
Margin (%)	*24.4*	*23.8*	*24.6*	*24.8*
Net Interest	591	660	700	827
Other Income	371	475	635	862
Profit Before Tax	**2,948**	**3,421**	**4,279**	**5,379**
Margin (%)	*22.7*	*22.6*	*24.2*	*24.9*
Total Tax	765	889	1,113	1,399
Effective tax rate (%)	*26.0*	*26.0*	*26.0*	*26.0*
Profit after tax	**2,183**	**2,531**	**3,167**	**3,981**
Minority interest	13	20	20	20
Share Profit from Associate	-	-	-	-
Adjusted PAT	**2,170**	**2,511**	**3,147**	**3,961**
YoY gr. (%)	*2.9*	*15.7*	*25.3*	*25.9*
Margin (%)	*16.7*	*16.6*	*17.8*	*18.3*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**2,170**	**2,511**	**3,147**	**3,961**
YoY gr. (%)	*2.9*	*15.7*	*25.3*	*25.9*
Margin (%)	*16.7*	*16.6*	*17.8*	*18.3*
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,170	2,511	3,147	3,961
Equity Shares O/s (m)	**102**	**102**	**102**	**102**
EPS (Rs)	**21.4**	**24.7**	**31.0**	**39.0**

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
Non-Current Assets				
Gross Block	**15,977**	**18,187**	**20,437**	**23,780**
Tangibles	15,875	18,085	20,335	23,678
Intangibles	102	102	102	102
Acc: Dep / Amortization	**3,386**	**4,755**	**6,350**	**8,211**
Tangibles	3,386	4,755	6,350	8,211
Intangibles	-	-	-	-
Net fixed assets	**12,591**	**13,431**	**14,087**	**15,569**
Tangibles	12,489	13,329	13,985	15,467
Intangibles	102	102	102	102
Capital Work In Progress	138	138	138	138
Goodwill	-	-	-	-
Non-Current Investments	3,672	3,672	3,672	3,672
Net Deferred tax assets	260	260	260	260
Other Non-Current Assets	1,902	1,902	1,902	1,902
Current Assets				
Investments	-	-	-	-
Inventories	240	291	339	414
Trade receivables	704	830	969	1,183
Cash & Bank Balance	2,051	3,666	6,055	9,341
Other Current Assets	146	161	160	210
Total Assets	**21,704**	**24,351**	**27,582**	**32,689**
Equity				
Equity Share Capital	1,015	1,015	1,015	1,015
Other Equity	11,574	13,615	16,172	19,427
Total Networth	**12,589**	**14,630**	**17,187**	**20,442**
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	815	913	1,066	1,302
Other current liabilities	587	599	613	628
Total Equity & Liabilities	**21,704**	**24,351**	**27,582**	**32,689**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	2,948	3,421	4,279	5,379
Add. Depreciation	1,121	1,369	1,595	1,861
Add. Interest	591	660	700	827
Less Financial Other Income	371	475	635	862
Add. Other	(369)	-	-	-
Op. profit before WC changes	4,291	5,450	6,574	8,067
Net Changes-WC	(190)	(78)	(35)	(53)
Direct tax	(886)	(889)	(1,113)	(1,399)
Net cash from Op. activities	**3,214**	**4,482**	**5,426**	**6,615**
Capital expenditures	(3,534)	(1,989)	(2,088)	(2,193)
Interest / Dividend Income	306	-	-	-
Others	963	-	-	-
Net Cash from Invt. activities	**(2,265)**	**(1,989)**	**(2,088)**	**(2,193)**
Issue of share cap. / premium	-	-	-	-
Debt changes	(725)	(759)	(787)	(899)
Dividend paid	(308)	(471)	(589)	(706)
Interest paid	-	-	-	-
Others	30	351	427	469
Net cash from Fin. activities	**(1,003)**	**(879)**	**(949)**	**(1,137)**
Net change in cash	**(53)**	**1,614**	**2,389**	**3,286**
Free Cash Flow	(321)	2,494	3,338	4,423

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY24	FY25E	FY26E	FY27E
Per Share(Rs)				
EPS	21.4	24.7	31.0	39.0
CEPS	32.4	38.2	46.7	57.4
BVPS	124.0	144.1	169.3	201.4
FCF	(3.2)	24.6	32.9	43.6
DPS	3.5	4.6	5.8	7.0
Return Ratio(%)				
RoCE	17.3	16.8	17.9	18.9
ROIC	16.1	17.4	20.2	22.9
RoE	18.7	18.5	19.8	21.1
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.3)	(0.4)	(0.5)
Net Working Capital (Days)	4	5	5	5
Valuation(x)				
PER	72.6	62.7	50.1	39.8
P/B	12.5	10.8	9.2	7.7
P/CEPS	47.9	40.6	33.2	27.1
EV/EBITDA	36.3	30.9	25.5	20.6
EV/Sales	12.0	10.2	8.6	6.9
Dividend Yield (%)	0.2	0.3	0.4	0.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY24	Q1FY25	Q2FY25	Q3FY25E
Net Revenue	**3,411**	**3,302**	**4,175**	**3,808**
YoY gr. (%)	*7.6*	*15.0*	*25.5*	*13.4*
Raw Material Expenses	419	425	517	510
Gross Profit	2,992	2,877	3,658	3,298
Margin (%)	*87.7*	*87.1*	*87.6*	*86.6*
EBITDA	**1,055**	**937**	**1,471**	**1,314**
YoY gr. (%)	*7.7*	*6.9*	*25.1*	*11.3*
Margin (%)	*30.9*	*28.4*	*35.2*	*34.5*
Depreciation / Depletion	323	341	349	350
EBIT	**732**	**596**	**1,122**	**964**
Margin (%)	*21.5*	*18.0*	*26.9*	*25.3*
Net Interest	168	182	181	190
Other Income	128	119	113	123
Profit before Tax	**692**	**534**	**1,054**	**897**
Margin (%)	*20.3*	*16.2*	*25.2*	*23.6*
Total Tax	181	136	263	229
Effective tax rate (%)	*26.2*	*25.5*	*25.0*	*25.5*
Profit after Tax	**511**	**397**	**790**	**669**
Minority interest	1	2	1	5
Share Profit from Associates	-	-	-	-
Adjusted PAT	**510**	**395**	**789**	**664**
YoY gr. (%)	*(4.9)*	*(3.6)*	*25.4*	*6.8*
Margin (%)	*14.9*	*12.0*	*18.9*	*17.4*
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	**510**	**395**	**789**	**664**
YoY gr. (%)	*(4.9)*	*(3.6)*	*25.4*	*6.8*
Margin (%)	*14.9*	*12.0*	*18.9*	*17.4*
Other Comprehensive Income	**-**	**-**	**-**	**-**
Total Comprehensive Income	**510**	**395**	**789**	**664**
Avg. Shares O/s (m)	**-**	**-**	**-**	**-**
EPS (Rs)	**-**	**-**	**-**	**-**

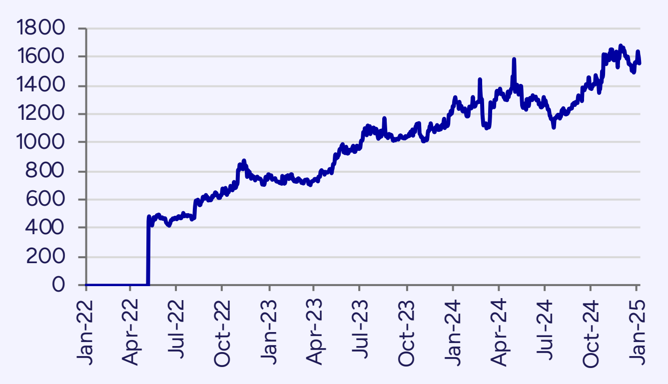
Source: Company Data, PL Research

Notes

Notes

Notes

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Apollo Hospitals Enterprise	BUY	8,000	7,437
2	Aster DM Healthcare	BUY	620	524
3	Aurobindo Pharma	Accumulate	1,475	1,298
4	Cipla	BUY	1,730	1,497
5	Divi's Laboratories	Accumulate	6,000	5,920
6	Dr. Reddy's Laboratories	Reduce	1,335	1,353
7	Eris Lifesciences	BUY	1,420	1,301
8	Fortis Healthcare	BUY	710	735
9	HealthCare Global Enterprises	BUY	535	488
10	Indoco Remedies	Accumulate	320	337
11	Ipca Laboratories	Accumulate	1,700	1,736
12	J.B. Chemicals & Pharmaceuticals	BUY	2,250	1,896
13	Jupiter Life Line Hospitals	BUY	1,660	1,565
14	Krishna Institute of Medical Sciences	BUY	675	649
15	Lupin	BUY	2,420	2,359
16	Max Healthcare Institute	BUY	1,200	1,198
17	Narayana Hrudayalaya	BUY	1,420	1,351
18	Sun Pharmaceutical Industries	BUY	2,100	1,853
19	Sunteck Realty	BUY	670	490
20	Torrent Pharmaceuticals	Accumulate	3,600	3,404
21	Zydus Lifesciences	Accumulate	1,050	1,001

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Buy : >15%
Accumulate : 5% to 15%
Hold : +5% to -5%
Reduce : -5% to -15%
Sell : < -15%
Not Rated (NR) : No specific call on the stock
Under Review (UR) : Rating likely to change shortly

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