BUY Rainbow Children's Medicare

In-line quarter; execution delay a slight dampener

Healthcare ▸ Result Update ▸ **February 10, 2025**

TARGET PRICE (Rs): 1,700

Rainbow's Q3FY25 print was largely in line with our estimates as revenue/EBITDA grew 18%/14% YoY, respectively. Ramp up in new hospitals remains strong with breakeven expected for Hyderabad hospitals (commissioned during Q4FY24) within the next quarter. Delay in commissioning of hospitals in the pipeline, however, was a slight dampener in our view. We believe the company has multiple margin levers that would offset the expected drag from its staggered bed expansion plans over FY25-27 as we anticipate EBITDA CAGR at 18%. Strong net cash balance sheet and robust cash conversion provide comfort on valuations. Baking in the delay in execution, we cut FY26/27E EBITDA by 3% and trim Dec-25E TP to Rs1,700 (5.6% cut) based on 29x Dec-26E pre-IndAS EV/EBITDA.

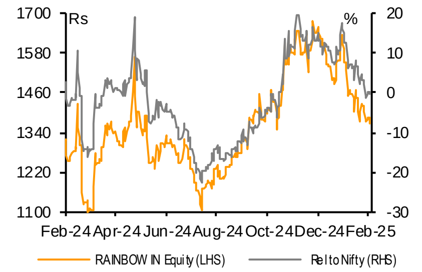
Target Price – 12M	Dec-25
Change in TP (%)	**(5.6)**
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	24.2
CMP (10-Feb-25) (Rs)	1,369.0

Stock Data	Ticker
52-week High (Rs)	1,710
52-week Low (Rs)	1,079
Shares outstanding (mn)	101.6
Market-cap (Rs bn)	139
Market-cap (USD mn)	2
Net-debt, FY25E (Rs mn)	-7,219
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	257.0
ADTV-3M (USD mn)	2.9
Free float (%)	-
Nifty-50	23,382
INR/USD	87.5
Shareholding, Dec-24	
Promoters (%)	49.9
FPIs/MFs (%)	25.1/13.9

Price Performance

(%)	1M	3M	12M
Absolute	(11.8)	(13.5)	10.2
Rel. to Nifty	(11.6)	(10.7)	2.7

1-Year share price trend (Rs)



Rainbow Children's Medicare: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	11,736	12,969	15,385	18,537	22,697
EBITDA	3,964	4,289	5,088	6,057	7,311
Adj. PAT	2,108	2,170	2,559	3,101	3,894
Adj. EPS (Rs)	20.8	21.4	25.2	30.6	38.4
EBITDA margin (%)	33.8	33.1	33.1	32.7	32.2
EBITDA growth (%)	30.0	8.2	18.6	19.0	20.7
Adj. EPS growth (%)	43.8	2.9	17.9	21.2	25.6
RoE (%)	25.4	18.7	18.7	19.1	20.0
RoIC (%)	42.5	31.5	35.0	37.1	39.9
P/E (x)	65.9	64.0	54.3	44.8	35.7
EV/EBITDA (x)	34.2	31.8	26.4	21.9	17.7
P/B (x)	13.1	11.0	9.4	7.9	6.5
FCFF yield (%)	1.4	(0.2)	2.0	1.8	2.6

Source: Company, Emkay Research

Ramp up in new hospitals remains strong

Rainbow reported a strong topline growth of 18% YoY on the back of patient volumes and ARPP being up 12% and 5% on YoY basis. Despite ARPP being up 5% YoY, ARPOB dipped 4% due to increase in ALOS by 11% YoY. OBD for the quarter increased 24% YoY. EBITDA was reported at Rs1.3bn (+14% YoY). Margins contracted by 140bps YoY, primarily due to COGS increasing 26% YoY and a one-off impact of the silver jubilee celebration expenses amounting to Rs70mn spread across Q2/Q3FY25. Pre-IndAS margins were at 28%. Reported margins on 9M basis contracted by 110bps YoY. PAT came in at Rs687mn (+11% YoY), mainly due to depreciation/interest increasing 27% YoY, but was partially set off by other income increasing 54% YoY. Revenues of mature facilities were up 17% YoY on the back of OBD increasing 24%, setting off the decline in ARPOB by 6% YoY. However, developing facilities registered strong growth with OBD and ARPOB being up 23% and 2% YoY, respectively. During the quarter, the payor mix has improved to 51%/49% for cash/insurance patients (vs 50%/50% Q3FY24). Capex for the quarter was Rs218mn. Net cash as of Dec-24 was Rs6.7bn.

Call highlights

1) Management guided margins to remain tightly bound within +/-1% of current levels despite new hospital ramp-ups. 2) New hospitals in Hyderabad, Bangalore, and Chennai are expected to breakeven in 12/15/18 months from commencement; total drag from these hospitals is ~Rs80-90mn currently. 3) Management may take price hikes in FY26 for cash patients along with insurance pricing revision, which at an annualized rate comes at 4-5% (once every 2-3 years, with a 12-15% cumulative increase). 4) Management guided ARPOB to grow 5-9%, but it was temporarily impacted by higher ALOS. ARPP growing 6-7% YoY, supported by a shift toward complex, high-value cases. ALOS currently at 2.8-2.9 days, is higher due to insurance delays and complex cases; expected to stabilize at 2.6-2.8 days as operational efficiencies improve. 5) Management guided capex to be fully funded through internal accruals, with Rs4bn allocated for Gurgaon over 3 years. 6) Management has seen international patient inflow drop 40% YoY due to geopolitical issues. FY25 MVT revenue is now expected at Rs340mn (~2% of sales vs earlier expectation at 4% of sales) vs Rs440mn in FY24. 7) Coimbatore project delayed as it required plan resubmission due to government rule changes; it is expected to be completed in 24 months. Gurugram Sector 56 approvals have been received, Sector 44 awaiting final approval. Construction will start in 4-6 weeks with commissioning by FY28. 8) A new outpatient clinic in Hyderabad and an IVF center in Bangalore was launched during Q3FY25; Butterfly Essentials retail stores is now operational across 15 hospitals.

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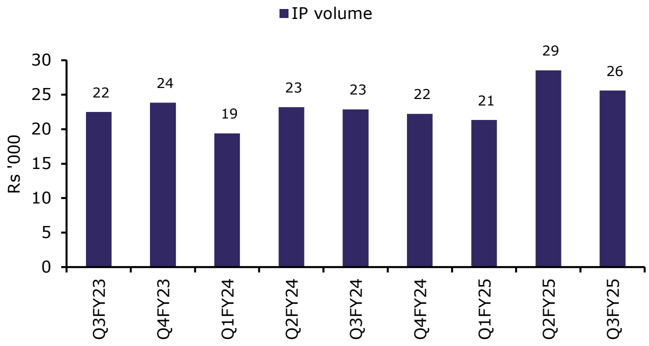
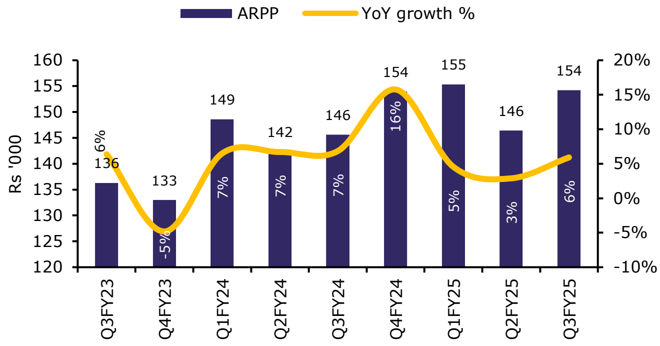
Story in Charts

Exhibit 1: Rainbow's revenue growth is boosted by strong patient volumes…



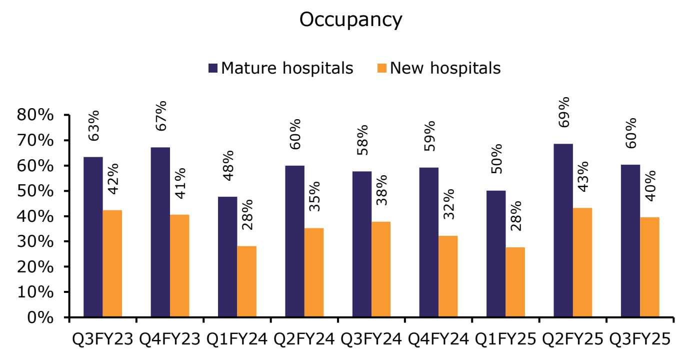
Source: Company, Emkay Research

Exhibit 2: …and robust growth in average revenue per patient



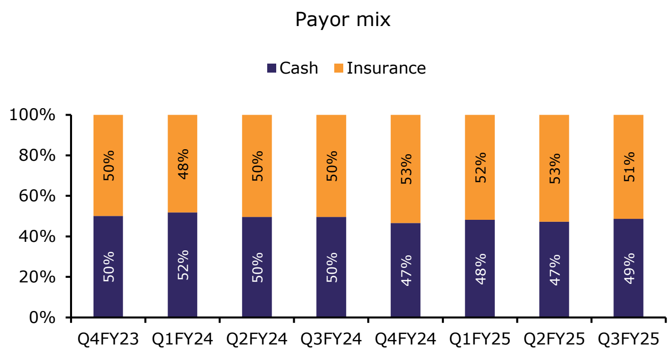
Source: Company, Emkay Research

Exhibit 3: Occupancies have improved marginally on YoY basis



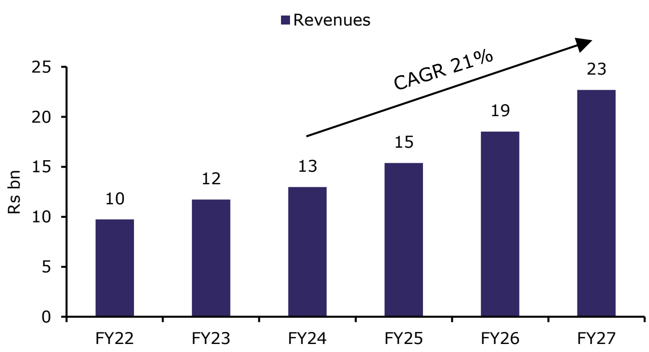
Source: Company, Emkay Research

Exhibit 4: Payor mix continues to strengthen with more cash patients



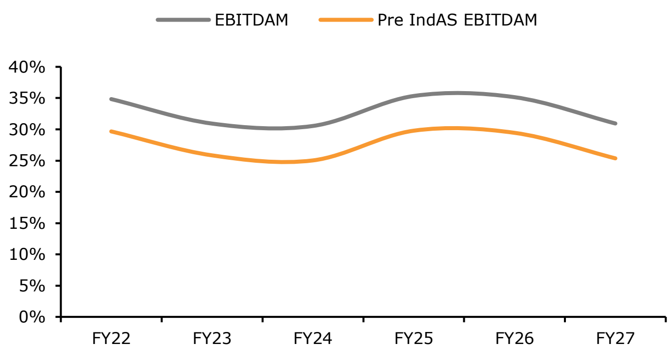
Source: Company, Emkay Research

Exhibit 5: We expect revenue CAGR of 21% in FY24-27E…



Source: Company, Emkay Research

Exhibit 6: …and do not expect margins to dilute significantly despite capex plans



Source: Company, Emkay Research

Exhibit 7: Summary of quarterly financials

Particulars (Rs mn)	Q3FY24	Q2FY25	Q3FY25	YoY	QoQ	9MFY24	9MFY25	YoY
Net sales	3,360	4,175	3,981	18%	-5%	9,558	11,458	20%
Operating Expenses	(2,179)	(2,704)	(2,637)	21%	-2%	-6,325	-7,706	22%
Operating Expenses	427	517	537	26%	4%	1,233	1,479	20%
Employee Costs	1,206	1,490	1,437	19%	-4%	3,543	4,266	20%
SG&A expenses	545	697	663	22%	-5%	1,548	1,961	27%
EBITDA	1,181	1,471	1,344	14%	-9%	3,233	3,752	16%
Margins	35.1%	35.2%	33.8%					
Depreciation	(277)	(349)	(352)	27%	1%	-798	-1,043	31%
EBIT	904	1,122	991	10%	-12%	2,436	2,709	11%
Other Income	86	113	133	54%	18%	243	365	50%
Interest	(143)	(181)	(181)	27%	0%	-422	-543	29%
Minority Int.	4	1	3	-43%		12	6	-51%
PBT	843	1,052	941	12%	-11%	2,244	2,524	12%
Tax	(222)	(263)	(254)	14%	-4%	-584	-654	12%
PAT	621	789	687	11%	-13%	1,660	1,871	13%
Adj. PAT	621	789	687	11%	-13%	1,660	1,871	13%
EPS (Rs)	6.12	7.77	6.77	11%	-13%	16	18	0.1
(%)	**Q3FY24**	**Q2FY25**	**Q3FY25**	**YoY (bps)**	**QoQ (bps)**	**9MFY24**	**9MFY25**	**YoY (bps)**
Gross Margin	87.3%	87.6%	86.5%	-79	-112	87.1%	87.1%	-0
EBITDA	35.1%	35.2%	33.8%	-140	-148	33.8%	32.7%	-109
EBIT	26.9%	26.9%	24.9%	-201	-197	25.5%	23.6%	-184
EBT	25.1%	25.2%	23.6%	-147	-157	23.5%	22.0%	-145
PAT	18.5%	18.9%	17.3%	-124	-164	17.4%	16.3%	-104
Effective Tax rate	26.3%	25.0%	27.0%	67	194	26.0%	25.9%	-14

Source: Company, Emkay Research

Exhibit 8: Actuals vs estimates (Q3FY25)

(Rs mn)	Actual	Estimate (Emkay)	Consensus estimate (Bloomberg)	Variation	
				Emkay	Consensus
Revenue	3,981	3,766	4,069	6%	-2%
EBITDA	1,344	1,311	1,380	2%	-3%
EBITDA Margin	*34%*	*35%*	*34%*	*-106 bps*	*-16 bps*
PAT	687	644	724	7%	-5%

Source: Company, Emkay Research

Exhibit 9: Change in estimates

Particulars (Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	15,076	15,385	2.0%	18,665	18,537	-0.7%	22,935	22,697	-1.0%
EBITDA	4,893	5,088	4.0%	6,227	6,057	-2.7%	7,572	7,311	-3.4%
EBITDA Margin	*32.5%*	*33.1%*	*62 bps*	*33.4%*	*32.7%*	*-69 bps*	*33.0%*	*32.2%*	*-80 bps*
EBITDA (Pre-Ind AS)	4,186	4,364	4.2%	5,257	5,093	-3.1%	6,311	6,063	-3.9%
PAT	2,424	2,559	5.6%	3,231	3,101	-4.0%	4,032	3,894	-3.4%

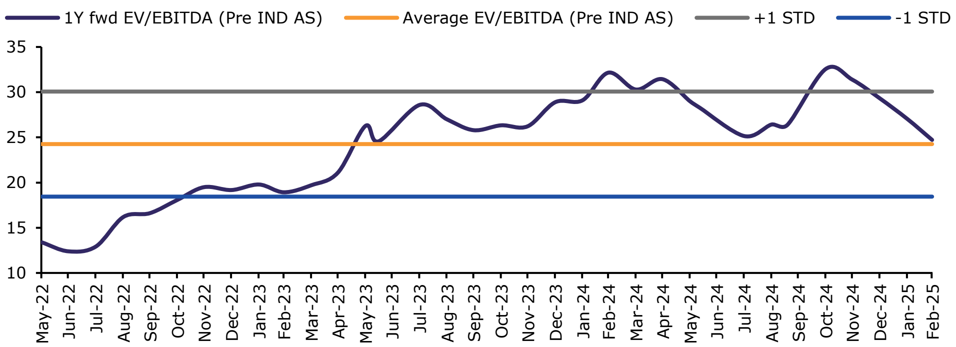
Source: Company, Emkay Research

Exhibit 10: We value Rainbow at Rs1,700/share

Target Price calculation	Rs
Dec-26E Pre-IndAS EBITDA (Rs mn)	5,820
Applied EV/EBITDA (x)	29
Target EV (Rs mn)	168,791
FY25E Net cash (Rs mn)	7,219
Target Mcap (Rs mn)	176,010
Shares outstanding (mn)	101.5
Target Price (Rs)	**1,700**

Source: Company, Emkay Research

Exhibit 11: Rainbow is trading at its long-term 1YF EV/EBITDA (Pre-IndAS)



Source: Bloomberg, Emkay Research

Rainbow Children's Medicare: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	**11,736**	**12,969**	**15,385**	**18,537**	**22,697**
Revenue growth (%)	20.5	10.5	18.6	20.5	22.4
EBITDA	**3,964**	**4,289**	**5,088**	**6,057**	**7,311**
EBITDA growth (%)	30.0	8.2	18.6	19.0	20.7
Depreciation & Amortization	903	1,121	1,386	1,645	1,910
EBIT	**3,061**	**3,168**	**3,703**	**4,413**	**5,401**
EBIT growth (%)	38.1	3.5	16.9	19.2	22.4
Other operating income	0	0	0	0	0
Other income	309	371	493	575	719
Financial expense	552	591	733	790	851
PBT	**2,818**	**2,948**	**3,462**	**4,197**	**5,268**
Extraordinary items	0	0	0	0	0
Taxes	694	765	896	1,090	1,368
Minority interest	(15)	(13)	(7)	(7)	(7)
Income from JV/Associates	0	0	0	0	0
Reported PAT	**2,108**	**2,170**	**2,559**	**3,101**	**3,894**
PAT growth (%)	52.5	2.9	17.9	21.2	25.6
Adjusted PAT	**2,108**	**2,170**	**2,559**	**3,101**	**3,894**
Diluted EPS (Rs)	**20.8**	**21.4**	**25.2**	**30.6**	**38.4**
Diluted EPS growth (%)	43.8	2.9	17.9	21.2	25.6
DPS (Rs)	**(2.0)**	**(3.0)**	**(3.0)**	**(3.0)**	**(3.0)**
Dividend payout (%)	**9.6**	**14.2**	**11.9**	**9.8**	**7.8**
EBITDA margin (%)	33.8	33.1	33.1	32.7	32.2
EBIT margin (%)	26.1	24.4	24.1	23.8	23.8
Effective tax rate (%)	24.6	26.0	25.9	26.0	26.0
NOPLAT (pre-IndAS)	**2,307**	**2,346**	**2,744**	**3,267**	**3,999**
Shares outstanding (mn)	101.5	101.5	101.5	101.5	101.5

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,015	1,015	1,015	1,015	1,015
Reserves & Surplus	9,584	11,574	13,829	16,626	20,215
Net worth	**10,599**	**12,589**	**14,844**	**17,641**	**21,230**
Minority interests	50	60	60	60	60
Deferred tax liability (net)	(260)	(260)	(260)	(260)	(260)
Total debt	**0**	**0**	**0**	**0**	**0**
Total liabilities & equity	**10,390**	**12,389**	**14,644**	**17,440**	**21,030**
Net tangible fixed assets	4,836	6,387	6,986	8,414	9,634
Net intangible assets	53	102	89	76	64
Net ROU assets	4,441	6,102	6,552	7,053	7,614
Capital WIP	209	138	138	138	138
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	**3,925**	**5,126**	**7,219**	**8,985**	**11,968**
Current assets (ex-cash)	4,365	6,281	6,457	6,708	7,034
Current Liab. & Prov.	1,459	1,571	1,724	1,855	2,217
NWC (ex-cash)	**2,906**	**4,710**	**4,733**	**4,853**	**4,817**
Total assets	**10,391**	**12,389**	**14,644**	**17,441**	**21,030**
Net debt	- 3,925	- 5,126	- 7,219	- 8,985	- 11,968
Capital employed	10,390	12,389	14,644	17,440	21,030
Invested capital	**6,638**	**9,817**	**9,980**	**11,010**	**11,616**
BVPS (Rs)	104.4	124.0	146.2	173.8	209.2
Net Debt/Equity (x)	(0.3)	(0.2)	(0.3)	(0.4)	(0.4)
Net Debt/EBITDA (x)	(0.9)	(0.6)	(0.9)	(1.0)	(1.3)
Interest coverage (x)	0.2	0.2	0.2	0.2	0.1
RoCE (%)	**40.6**	**31.1**	**31.0**	**31.1**	**31.8**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,818	2,948	3,462	4,197	5,268
Others (non-cash items)	0	0	0	0	0
Taxes paid	(694)	(765)	(896)	(1,090)	(1,368)
Change in NWC	(3,662)	(1,804)	(24)	(120)	36
Operating cash flow	**3,288**	**3,214**	**4,168**	**4,918**	**5,879**
Capital expenditure	(1,413)	(3,536)	(1,500)	(2,531)	(2,526)
Acquisition of business	0	0	0	0	0
Interest & dividend income	(203)	(308)	(305)	(305)	(305)
Investing cash flow	**(4,652)**	**(2,265)**	**(1,930)**	**(2,986)**	**(2,960)**
Equity raised/(repaid)	(35)	0	0	0	0
Debt raised/(repaid)	(273)	0	0	0	0
Payment of lease liabilities	(538)	(591)	(733)	(790)	(851)
Interest paid	(552)	(591)	(733)	(790)	(851)
Dividend paid (incl tax)	(203)	(308)	(305)	(305)	(305)
Others	2,797	(420)	891	929	1,220
Financing cash flow	**1,734**	**(1,318)**	**(146)**	**(166)**	**64**
Net chg in Cash	370	(368)	2,092	1,767	2,983
OCF	3,288	3,214	4,168	4,918	5,879
Adj. OCF (w/o NWC chg.)	(374)	1,410	4,144	4,798	5,915
FCFF	1,875	(322)	2,668	2,387	3,353
FCFE	1,120	(1,220)	1,630	1,292	2,198
OCF/EBITDA (%)	83.0	74.9	81.9	81.2	80.4
FCFE/PAT (%)	53.1	(56.2)	63.7	41.7	56.4
FCFF/NOPLAT (%)	**81.3**	**(13.7)**	**97.2**	**73.1**	**83.9**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	65.9	64.0	54.3	44.8	35.7
P/CE(x)	46.1	42.2	35.2	29.3	23.9
P/B (x)	13.1	11.0	9.4	7.9	6.5
EV/Sales (x)	11.5	10.5	8.7	7.2	5.7
EV/EBITDA (x)	34.2	31.8	26.4	21.9	17.7
EV/EBIT(x)	44.2	43.1	36.3	30.1	24.0
EV/IC (x)	20.4	13.9	13.5	12.0	11.2
FCFF yield (%)	1.4	(0.2)	2.0	1.8	2.6
FCFE yield (%)	0.8	(0.9)	1.2	0.9	1.6
Dividend yield (%)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
DuPont-RoE split					
Net profit margin (%)	18.0	16.7	16.6	16.7	17.2
Total asset turnover (x)	1.4	1.1	1.1	1.2	1.2
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	**25.4**	**18.7**	**18.7**	**19.1**	**20.0**
DuPont-RoIC					
NOPLAT margin (%)	19.7	18.1	17.8	17.6	17.6
IC turnover (x)	2.2	1.7	2.0	2.1	2.3
RoIC (%)	**42.5**	**31.5**	**35.0**	**37.1**	**39.9**
Operating metrics					
Core NWC days	(2.7)	3.6	3.6	4.0	4.3
Total NWC days	**(2.7)**	**3.6**	**3.6**	**4.0**	**4.3**
Fixed asset turnover	1.9	1.7	1.7	1.7	1.8
Opex-to-revenue (%)	52.7	54.2	54.2	54.3	54.8

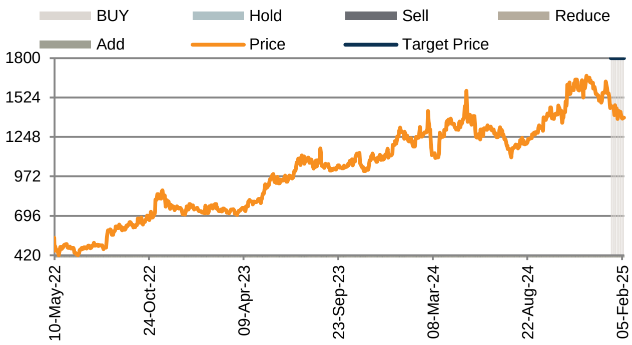
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
16-Jan-25	1,468	1,800	Buy	Anshul Agrawal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
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