

Stock Note

Rainbow Children's Medicare Ltd.

June 19, 2023





Rainbow Children's Medicare Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Healthcare Facilities	Rs 944.6	Buy in the band of Rs 935-955 & add more on dips to Rs 830-845 band	Rs 1042	Rs 1118	2-3 quarters

HDFC Scrip Code	RAINBOW
BSE Code	543524
NSE Code	RAINBOW
Bloomberg	RAINBOW IN
CMP Jun 16, 2023	944.6
Equity Capital (Rs cr)	101.5
Face Value (Rs)	10
Equity Share O/S (cr)	10.1
Market Cap (Rs cr)	9,588
Book Value (Rs)	104.4
Avg. 52 Wk Volumes	291570
52 Week High	996.9
52 Week Low	413.4

Share holding Pattern % (March 2023)	
Promoters	49.8
Institutions	35.2
Non Institutions	15.0
Total	100.0



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Rainbow Children's Medicare Ltd (RCML) is the largest hospital chain among pediatrics and obstetrics & gynecology (OB/GYN) hospitals in India with a network of 16 hospitals (bed capacity of 1655 beds) and 3 outpatient clinics across six cities. A child centric approach adopted in the hospitals makes the atmosphere suitable for quicker treatment of and recovery from severe or prolonged illnesses. RCML operates under the brand name, "Rainbow Children's Hospital" and "Birth Right by Rainbow". Strong clinical expertise coupled with trained and experience senior doctors and consultants paved the way to successfully create and operate children-centric hospitals; and clock ~21% CAGR revenue growth over FY19-23. EBITDA margin remained healthy; 30%+ over the last couple of years. RCML follows a cost effective model and has a track record of healthy operational performance in terms of ARPOB, ALOS, occupancy.

RCML gradually evolved into a one-stop healthcare solution for child and mother care; and is well placed in India's pediatric and maternity healthcare market which is expected to grow at ~12-14% CAGR over medium term. Very few hospitals provide end-to-end services for women and children in terms of facilities right from conception, through delivery of the baby, into his/her childhood till adolescence – in effect a one stop centre. The seamless and complimentary synergies between the two departments enable better utilisation of resources and infrastructure as well as help in improving brand image.

Hub-and-spoke model of expansion is cost effective as establishment of spokes is less expensive and help achieve breakeven faster. The company employs doctor engagement model which allows the specialist doctors work full-time in the hospitals with retainerhip. The specialists are available 24x7 (night call) on a rotation basis, which is very crucial for pediatric, neo natal and obstetrics specialties.

Valuation & Recommendation:

Rainbow Hospitals has a strong brand presence in Southern India, especially in the Hyderabad; and plans to expand in the northern parts of the country. The company plans to add 270 beds in FY24 across various geographies in Hyderabad, Bangalore and Chennai and another 160 beds in FY25E. It also announced greenfield capacity addition (~300 beds in sector 44 and ~100 beds in sector 56) with capex of Rs 450cr to strengthen its network in Delhi-NCR. In line with its earlier guidance, Rainbow remains on track to add 1,000 beds over the next 3-4 years. The occupancy is expected to remain healthy in near term despite 150-200 bed additions per year over the next three years. Around ~35% of the beds have been added in the last 5 years; higher occupancy and better operational performance would improve the maturity mix hospital profile. Faster turnaround of new spoke hospitals, continuous improvement in case mix, healthy ARPOB and low ALOS resulted in strong operational performance.



Robust execution track record with ~70% sales from pediatrics (where it has pricing power), integrated model of being a one-stop healthcare solution for pediatric and maternal care, full-time doctor engagement model with core specialists being available 24/7 has enabled Rainbow to create strong moat and achieve clinical excellence. Aggressive expansion plans to replicate success of Hyderabad in other cities, industry leading operational & financial metrics with strong balance sheet supports our conviction in the stock. **We think the base case fair value of the stock is Rs 1042 (22x FY25E EV/EBITDA; 41x FY25E EPS) and the bull case fair value is Rs 1118 (23.5x FY25E EV/EBITDA; 44x FY25E EPS) over the next two-three quarters. Investors can buy the stock in the band of Rs 935-955 and add more on dips to Rs 830-845 band (17.75x FY25E EV/EBITDA; 33x FY25E EPS). At CMP, the stock trades at 20x FY25E EV/EBITDA; 37.2x FY25E EPS.**

Financial Summary

Particulars (Rs cr)	Q4FY23	Q4FY22	YoY-%	Q3FY23	QoQ-%	FY21	FY22	FY23P	FY24E	FY25E
Total Operating Income	317.0	212.5	49.2	306.4	3.4	650.1	973.8	1,173.6	1,376.9	1,575.4
EBITDA	98.0	48.1	103.6	106.8	-8.2	162.8	304.9	396.4	448.9	505.7
PAT	53.9	12.3	339.2	58.2	-7.5	39.6	138.7	212.4	232.4	260.2
Adjusted PAT	53.6	12.2	339.5	57.9	-7.4	40.0	138.3	210.8	230.3	257.8
Diluted EPS (Rs)	5.3	1.3	307.3	5.7	-7.4	7.5	14.8	20.9	22.7	25.4
RoE-%						9.4	26.4	25.4	19.9	18.9
P/E (x)						207.5	64.3	45.5	41.6	37.2
EV/EBITDA (x)						53.6	30.4	25.5	22.5	20.0

(Source: Company, HDFC sec)

Q4FY23 Result Review

Rainbow Children's Medicare Ltd reported healthy topline growth of 49.2%/3.4% YoY/QoQ to Rs 316.9cr on the back of higher than expected occupancy levels. Typically, Q4 is a seasonally weak quarter, but the hospitals saw increased footfalls as well as inpatient admissions due to continued incidence of viral infections (Adenovirus infections causing pneumonia); pushing occupancy levels higher to 58.8% vs 57.1% in Q3FY23 (39.6% in Q4FY22). The company reported EBITDA of Rs 98cr (+103.6%/-8.2% YoY/QoQ) in Q4FY23. EBITDA margin declined 392bps QoQ and stood at 30.9% (vs 22.7% in Q4FY22). It clocked PAT of Rs 53.8cr (+339.2%/-7.5% YoY/QoQ).

As of March'23, the company has 1655 bed capacity with 1232 beds under operation. ARPOB during Q4FY23 was at Rs 48,603 (down 4.3% YoY adjusted for covid, flat QoQ). The management has guided for ~7-8% APROB growth YoY. In-patient volume grew 56.9%/4% YoY/QoQ to 23,541, while out-patient numbers were at 332,992 (+48.5%/5.6% YoY/QoQ). Payor mix remains at 52% cash and 48% insurance (credit). The company would be adding 270 beds in FY24E in the southern region of India and 160 bed additions in FY25E. It also announced greenfield capacity addition (~300 beds in sector 44 and ~100 beds in sector 56) with capex of Rs 450cr to strengthen its network in Delhi-NCR. In line with its earlier guidance, Rainbow remains on track to add 1,000 beds over the next 3-4 years.



Quarterly - Operational Performance

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Bed Capacity	1500	1500	1500	1500	1500	1555	1555	1655
Operational Beds	1138	1147	1150	1150	1150	1165	1198	1232
IP Volume	13,874	17,610	19,592	15,006	16,969	23,689	22,665	23,541
OP Volume	1,63,770	2,21,879	2,29,789	2,24,286	2,48,251	3,43,839	3,15,482	3,32,992
Occupancy	40.3%	46.7%	51.6%	39.6%	43.1%	62.2%	57.1%	58.8%
ARPOB per day (Rs)	58,986	53,922	45,613	51,787	52,603	46,947	48,744	48,603
ALOS (days)	3.01	2.8	2.78	2.73	2.66	2.81	2.77	2.77

Maturity Mix Profile

Matured Hospitals (>5 years)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Bed Capacity	1,052	1,052	1,052	1,052	1,052	1,052	1,052	1,052
Operational Beds	825	837	837	837	837	837	840	845
Occupancy	44.2%	52.2%	54.1%	42.6%	45.9%	67.8%	63.3%	67.2%
ARPOB per day (Rs)	55,985	52,788	46,673	52,007	52,582	47,098	48,911	48,225
ALOS (days)	2.86	2.68	2.58	2.57	2.49	2.65	2.60	2.65
New Hospitals	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Bed Capacity	448	448	448	448	448	503	503	603
Operational Beds	313	313	313	313	313	328	358	387
Occupancy	30.1%	32.0%	44.6%	31.7%	35.4%	47.9%	42.4%	40.6%
ARPOB per day (Rs)	70,591	58,869	42,177	50,988	52,676	46,403	48,159	49,972
ALOS (days)	3.80	3.48	3.76	3.56	3.48	3.65	3.63	3.34

(Source: Company, HDFC sec)

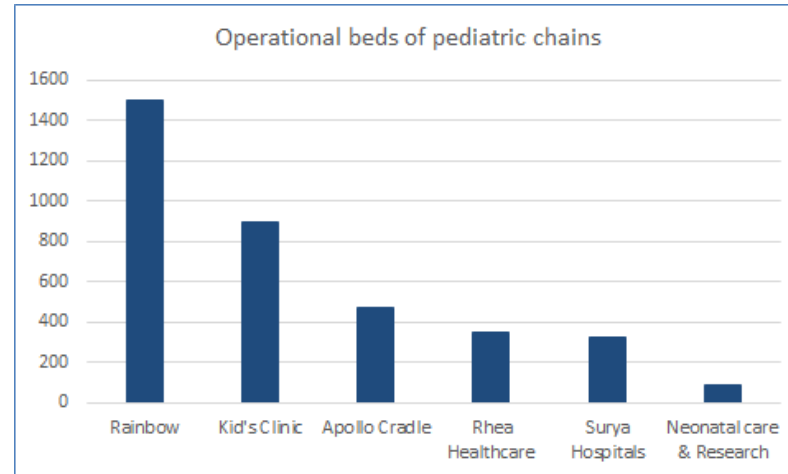
Key Triggers:

Leading multi-specialty pediatric hospital chain with strong brand:

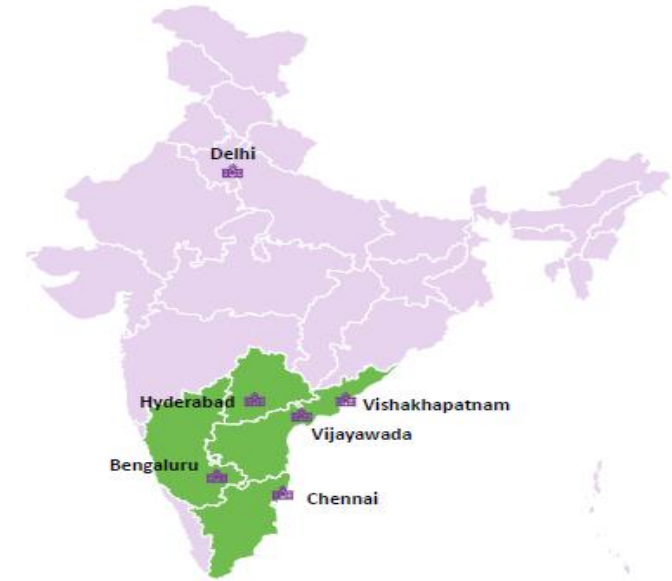
Rainbow Children's Medicare is one of India's leading multi-specialty pediatric hospital chain, with bed capacity of 1,655 beds across 16 hospitals and 3 clinics in six cities. It started its first pediatric specialty hospital in 1999 in Hyderabad with 50 beds and has expanded its network to 1655 beds through asset light expansion. The company has a strong brand presence in Southern India, especially in the Hyderabad; and plans to expand in the northern parts of the country. In the initial years, the company positioned itself as a leading provider of pediatric care. It later expanded into obstetrics and gynecology in 2007 given that many pregnancies require deliveries in a comprehensive perinatal ecosystem to address incidents of high-risk pregnancies, babies requiring immediate surgical interventions and other neonatal



interventions right after the birth. It addresses the health needs of not only babies and children, but also of pregnant women and new mothers.



(Data as of March'22; Source: Company, HDFC sec)



The company has established strong capabilities and brand reputation in managing complex pediatric cases across tertiary and quaternary care. It provides comprehensive critical care across various specialties such as neurology, nephrology, gastroenterology, oncology and cardiology. Almost 1/3rd beds are allocated to critical care, which is significantly higher than its peers. Its hub-and-spoke model of operation allows it to expand and capture larger area and garner patient volumes for tertiary and quaternary care at its hub hospitals through referral network of spoke hospitals. Strong clinical expertise coupled with trained and experience senior doctors and consultants paved the way to successful create and operate children-centric hospitals; and clock ~21% CAGR growth over FY19-23. RCML gradually evolved into a one-stop healthcare solution for child and mother care. It is well placed in India's pediatric and maternity healthcare market which is expected to grow at ~12-14% CAGR over medium term.

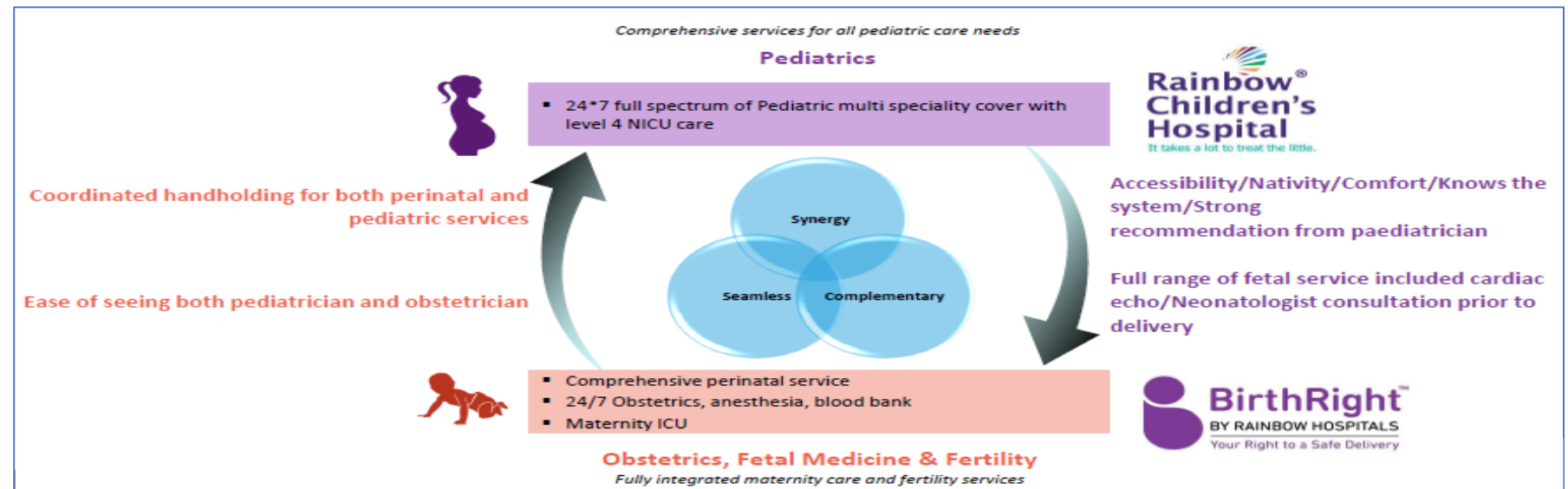
Comprehensive Children Hospital having a unique ecosystem integrating paediatric to perinatal services:

RCML started predominantly as a paediatric care chain, covering comprehensive range of healthcare services for children from birth throughout its childhood and adolescent years. However, it expanded into obstetrics and gynaecology services (perinatal services) in 2007 given the need to address growing problems in birthing ecosystem such as late pregnancy, more caesarean (C-section) deliveries. Rise in average maternity age leads to complications, which would increase the demand for maternity healthcare in India. Moreover, new-age



couples want to experience the birthing journey with the best available treatment, hospital facilities, doctor/consultants, and antenatal and post-natal physical well-being offerings.

Rainbow has high-risk pregnancy and maternity intensive care with 24/7 coverage, full-fledged fetal medicine department with capabilities of fetal inventions, and blood bank facilities within the hospital; and is well placed to grow in the maternity care segment. Expanding the healthcare ecosystem to cover pre-term births and birth related defects makes Rainbow a children centric hospital chain and strengthen its brand image. A child centric approach adopted in the hospitals makes the atmosphere suitable for quicker treatment of and recovery from severe or prolonged illnesses. RCML operates under the brand name, "Rainbow Children's Hospital" and "Birth Right by Rainbow". Tertiary and quaternary care is provided at the hub hospital. Rainbow is known for advanced neonatal and pediatric intensive care (NICU/PICU). Very few hospitals provide end-to-end services for women and children in terms of facilities right from conception, through delivery of the baby, into his/her childhood till adolescence – in effect a one stop centre. The seamless and complimentary synergies between the two departments enable better utilisation of resources and infrastructure as well as help in improving brand image. It has higher pediatric mix (~70% of sales); compared to other mother and child hospital chains in India which focuses more on the maternity care segment.

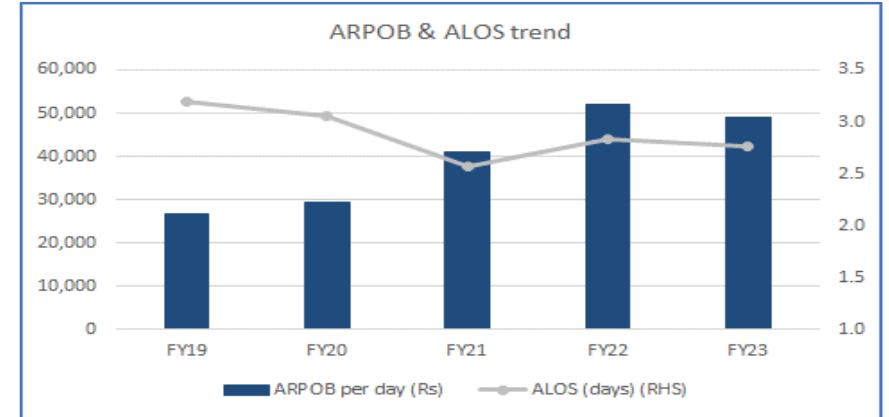
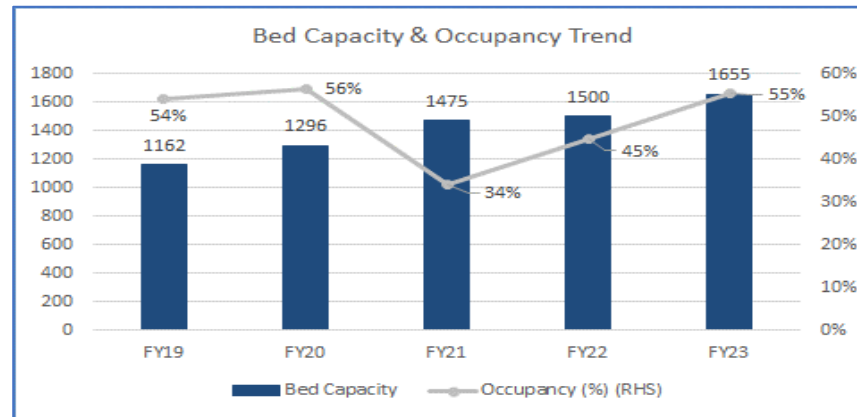


(Source: Company, HDFC sec)



Sound track record of growth, profitability, operational metrics:

RCML has a track record of healthy operational performance in terms of ARPOB, ALOS, occupancy. Over the years, the company has followed a cost effective model. It typically enters a new region with a hub hospital which is a paediatric multi-specialty unit, which takes relatively longer time to break-even given that much of the growth is organic in nature and it is toward children-centric care. Subsequently, every new spoke hospital is able to achieve faster breakeven due to brand recall and referral work from pediatricians having smaller setups. Such new hospitals have been able to achieve operational break-even at 30-32% occupancy or within 12-18 months of operations. Company's EBITDA per occupied bed is high compared to most of the listed peers. Faster turnaround of new spoke hospitals, continuous improvement in case mix, healthy ARPOB and low ALOS resulted in strong operational performance. Rainbow Children's Medicare reported ARPOB of Rs 48,932 (up ~4% YoY ex-covid ARPOB) in FY23. High contribution from complex procedures from pediatrics care (which has lesser competition), favorable payor mix (low institutional patient mix, high cash and insurance patient), high OPD mix (~30% vs 15-20% in multi-specialty), large number of beds in metro cities resulted in higher ARPOB.



(Source: Company, HDFC sec)

Rainbow's ARPOBs are higher than most of its peers, while its ALOS is the lowest. Lower ALOS at 2.7 days in FY23 (vs 4-5 days in multispecialty hospitals) leads to faster patient-turnaround. Company's occupancy levels are lower compared to listed peers given the seasonality in pediatric hospitals. Usually Q2 & Q3 witness higher occupancy due to monsoon-linked and winter ailments. Moreover, ~18% of beds are reserved for NICU (newborn intensive care units) which cannot be used for other patients, which results in overall lower occupancy rates. The occupancy is expected to remain healthy in near term despite 150-200 bed additions per year over the next three years. Around ~35% of the beds are added in the last 5 years, higher occupancy and better operational performance would improve the maturity mix hospital profile. RCML reported healthy topline growth of 21.3% CAGR over FY19-23 on the back of its bed additions and improving maturity mix

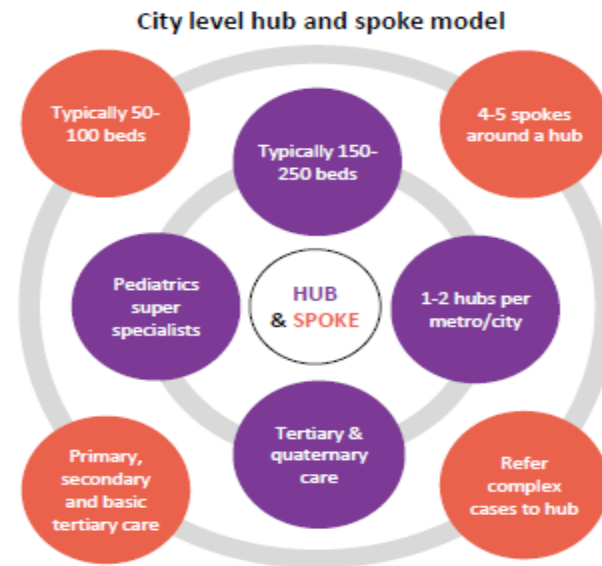


profile. EBITDA margin remained healthy @ 30%+ for last couple of years. Stable ARPOB and bed additions could translate into high teen revenue growth.

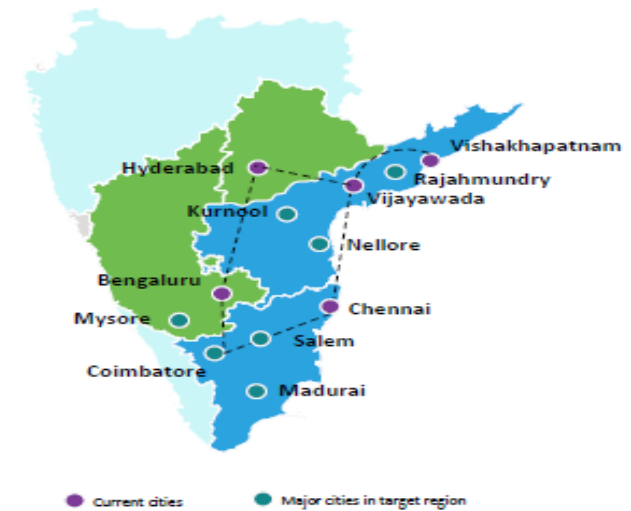
Calibrated organic expansion via hub-and-spoke model – to deepen its presence, drive synergies and achieve faster break-even for spoke hospitals:

Rainbow has grown its network from 1 hospital with 50 capacity beds in 1999 to 16 hospitals with 1,655 beds. Rainbow Hospital follow a hub-and-spoke model to grow organically. At the hub hospital, comprehensive outpatient and inpatient care is provided, with a focus on tertiary and quaternary care whereas secondary care in pediatric, obstetrics & gynaecology and emergency services are provided at the spokes. Under this model, the super-specialty doctors based at the hub hospital are able to reach out to the larger community and cover a larger catchment area. Hub-and-spoke model allows it to expand in a cluster and utilize synergies, while optimizing wider areas.

It successfully executed the hub-and-spoke model at Hyderabad, with the Banjara Hills hospital (comprising 250 beds) being the hub that is complemented by six spokes at different locations in the city. It followed the same model in Bangalore with Marathahalli hospital acting as hub which gets referrals from its spoke hospitals located at Bannerghatta Road and Hebbal. It recently set-up its first spoke hospital in Chennai to support the hub hospital located at Guindy. It plans to add more spokes in Bangalore, Chennai and Delhi-NCR. To further leverage its strong brand equity in South India and deepen its presence in tier-II markets, Rainbow targets setting-up regional level spokes over the next 4-5 years.



Regional level "South Connect" model

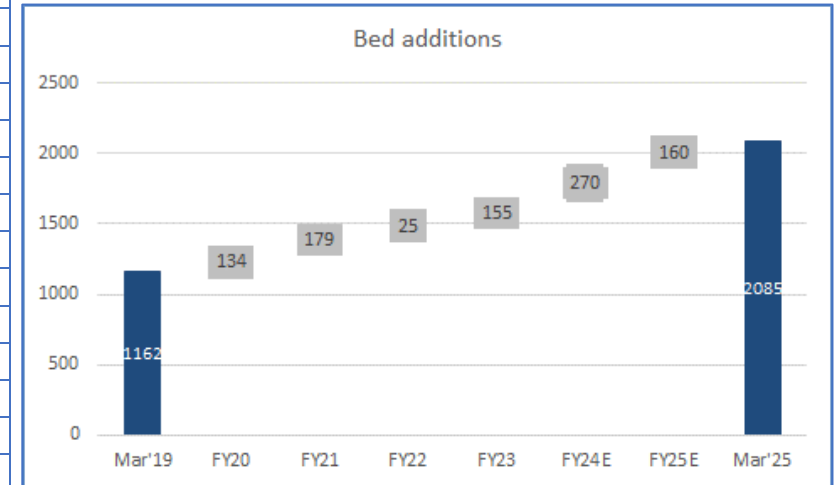


(Source: Company, HDFC sec)



Hub-and-spoke model of expansion is cost effective as establishment of spokes is less expensive and achieve breakeven faster. A hub hospital which provides comprehensive patient care and is typically larger in size 150-250 beds. Such a hub normally achieves EBITDA breakeven within 30-36 months. Rollout of smaller spoke hospital (50-100 beds) which entails lesser capex achieves operating breakeven faster (within 18-24 months) than the hub. Healthy patient footfalls on the back of brand recall and lower capital outlay allows establishment of regional spokes and provides a cost effective way for expansion. This model allows the company to expand its presence to larger area and capture higher patient volumes from the city as well as adjacent areas. It drives synergies through referrals of complex cases to hub hospitals and optimized capex spends at the spoke hospital, thereby achieving faster break-even at overall level.

Location	Hospital	Year of Commencement	Bed Capacity	Owned/ Leased
Hyderabad	Banjara hills	1999	250	Leased
	Vikrampuri	2007	110	Leased
	Hydernagar	2014	110	Leased
	LB Nagar	2016	100	Leased
	Kondapur	2013	50	Leased
	RCHI	2019	110	Leased
	Financial District	2023	100	Leased
Bengaluru	Marathahalli	2015	200	Leased
	BG Road	2016	102	Leased
	Hebbal	2020	50	Leased
Chennai	Guindy	2018	135	Leased
	Sholinganallur	2022	55	Leased
Andhra Pradesh	Vijayawada	2007	129	Leased
	Visakhapatnam	2020	130	Owned
Delhi	Malviya Nagar	2017	130	NA
	Rosewalk	2019	24	Leased



(Source: Company, HDFC sec)

Capex plans to cement its position in South and enter into newer areas:

Rainbow Children's Medicare Hospital has been following a calibrated approach for expansion via a hub and spoke model, which has helped it to grow over the past two decades from a single secondary care hospital in Hyderabad with 50 beds to 1655 beds; with hospitals located in places like Bengaluru, Karnataka, Chennai, and New Delhi-NCR. All of the company's rental hospital buildings are leased for a period of 20 years or more. The next two to three years will be spent concentrating on growing bed capacity at a run rate of 200 beds per year. Almost



all the bed additions would be in southern part of India; centered around existing facility. In line with its past expansion, bulk of Rainbow's future bed additions will be via an asset-light strategy

It recently commenced operation at Financial District (Hyderabad) with 100 bed capacity (project cost of ~Rs 60cr). This new hospital will complement services offered at the Hub hospital at Banjara Hills. The company purchased two land parcels admeasuring 2.32 acres/1.23 acres in Sector 44/56 in Gurugram, Haryana having bed capacity of 300/100 beds respectively. The greenfield hospital with 300 beds would act as a hub to provide all pediatric specialties under one roof including tertiary & quaternary care and focus on high-end perinatal service. The 100 bed (spoke) hospital would provide comprehensive pediatric and perinatal care with 24/7 emergency care. This greenfield expansion would entail capital outlay of ~Rs 450cr over the course of three-four years and strengthen company's presence at Delhi-NCR. Most of this capex would be through internal accruals. Capex per bed for the hub hospital would be relatively higher (Rs 90-100 lacs) compared to earlier bed additions, thereby taking longer time to break-even.

Rainbow Hospitals plans to add 270 beds in FY24 across various geographies in Hyderabad, Bangalore and Chennai. Project work for new spoke hospitals at Central Hyderabad (~60 beds), Anna Nagar, Chennai (~80 beds) and new block adjacent to Rainbow Hydernagar, Hyderabad (~50 beds) is on track and these hospitals are expected to commence operations during H2FY24. During Q4FY23, the company signed lease agreement for a brownfield ~80 beds spoke hospital at Sarjapur, Bengaluru which is expected to operationalise in Q4FY24. An additional block with an outpatient department and an IVF facility at Rainbow LB Nagar will be added to its network to cater to future growth at this spoke hospital. There are another 160 beds (100-bed facility in Rajahmundry, Andhra Pradesh and a 60-bed spoke hospital at Hennur Cross Road in Bangalore), which are going to come on stream in next 18-20 months' time.

Rainbow has created a strong regional presence in South India market, especially in Hyderabad and would deepen its presence in South before setting foot firmly in other parts of the country. The management is looking for potential expansion opportunities in neighbouring nations and north-east India.

Unique doctor engagement model and ability to attract, retain high calibre medical professionals

Rainbow has 700+ full-time doctors and 1,700+ part-time/visiting doctors, of which a number of senior doctors were trained across various children's hospitals in the US, UK, Canada and Australia. The company employs doctor engagement model which allows the specialist doctors work full-time in the hospitals with retainership. The doctors have no private or home clinics and are completely associated with Rainbow. The specialists are available 24x7 (night call) on a rotation basis, which is very crucial for pediatric, neo natal and obstetrics specialties. The company typically enters into retainership contracts covering initial 2-3 years period with its newly hired doctors, thereby providing stability to new doctors, leading to high full-time doctor retention rate.



Rainbow also has stock ownership plans (ESOP) for doctors, as a part of their compensation package. Around 100+ doctors own ~16% equity in the company. Rainbow Hospitals runs one of the country's largest academic training programmes in the private sector, for DNB in paediatrics and fellowship programme in paediatric super specialities. The candidates trained under this course are then absorbed into the specialist team thus making it easier for the hospital to mould the candidates in the desired way. This unique doctor engagement model ensures that most of Rainbow's core specialists are available 24/7 on a rotation basis across hospitals allowing it to cater to children's emergency and neonatal & pediatric intensive care services. Rainbow's success is also attributable to its ability operate children-centric hospitals given the experience of its founding promoter and senior experienced doctor consultants.

Concerns:

High concentration of revenue and profit from Hyderabad cluster: RCML has a strong dependence on Hyderabad – 7 hospitals; ~50% of the beds. Despite its expansion in Bengaluru, Delhi, Chennai and Vizag over the past seven years, Hyderabad continues to be higher share to overall revenue and profitability mix. These are few more bed additions planned in the region in the next two years.

Delay in turnaround of new hospitals; slow progress in Delhi Cluster: The company has been aggressively building its bed capacity; inability to leverage and improve the performance due to synergies could impact the margins going ahead. The company has set timelines for increasing its bed capacity and its entry in new markets. Any delay in commissioning or expansion (reaching breakeven) of new facilities may impact overall growth, thus impacting overall financials. Higher capex per bed for new greenfield 300-bed hospital in Delhi-NCR could take longer than expected time to breakeven as the area's dynamics are different from those in the south where RCML has a good hold. Inability to scale up its profitability in the Delhi cluster might deter the company from expanding outside of its existing core markets over the medium to long term.

Retention of key talent: The attrition of key talented personnel and inability to attract, retain a sufficient number of qualified doctors, nurses and other healthcare professionals, could have a material adverse effect on business, financial condition and results of operations. Rainbow's doctors are on full-time, exclusive retainership with the hospitals and are not its employees. The company has 700+ full-time doctors and 1,700+ part-time/visiting doctors time/visiting doctors. Though RCML has signed binding agreements with doctors there is no assurance that the doctors will not prematurely terminate such agreements. The company runs programmes to train doctors in paediatrics and paediatrics super specialties which enables it in onboarding medical professionals for new and existing hospitals.



High competition: The healthcare sector is competitive, as increasing healthcare providers (newer and existing hospitals, low-cost nursing homes, etc) try to establish themselves among patients. It faces competition from other maternity and childcare hospital chains like Kids Clinic, Motherhood Hospital (Rhea healthcare), Lotus hospital, Apollo Cradle, among others.

Discontinuation of leases: The company's operations are carried on leased hospital buildings. In the event of these leased properties are not renewed or are not renewed on favourable terms to the company, its business operations would be disrupted.

Exposed to regulatory risks inherent in the sector: Regulatory risks pertaining to restrictive pricing regulations levied by the Central and state governments could constrain the profit margins of the company. Any adverse government policy intervention, viz. price caps would impact its margins. Also any action by the Insurance companies to limit spend on certain procedures could adversely impact its growth.

Seasonality: Historically Q2 and Q3 have been the good quarters for RCML, although Q4FY23 has been exceptionally good due to prevalence of virus infections.

About the company:

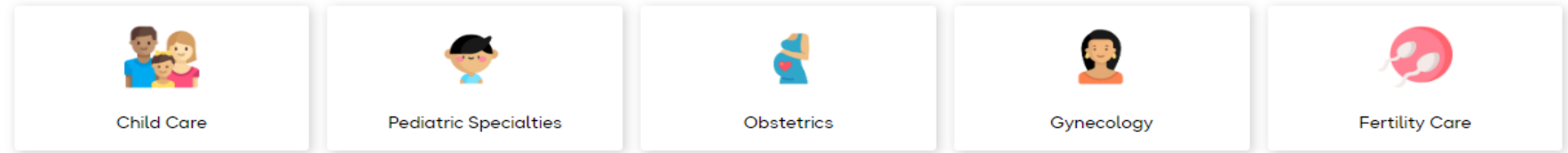
Rainbow Children's Medicare Ltd (RCML) is the largest hospital chain in paediatrics and obstetrics & gynecology (OB/GYN) hospitals in India with a network of 16 hospitals (bed capacity of 1655 beds) and 3 outpatient clinics across six cities - Hyderabad, Vijayawada, Visakhapatnam (both in Andhra Pradesh), Bengaluru, Delhi-NCR and Chennai. Pediatric services (~70% of revenue) includes newborn and pediatric intensive care, pediatric multi-specialty services and pediatric quaternary care (including multi-organ transplants). Birthright by Rainbow is an integrated obstetric vertical (~30%) services include normal and complex obstetric care, multi-disciplinary fetal care, perinatal genetic and fertility care along with gynecological services.

Rainbow Children's Hospital is built on a strong fundamental multi-disciplinary approach with a full-time consultant engagement model, commitment of 24x7 service, in a child-centric environment. The company follows hub and spoke model, where by the hub hospital provides comprehensive multi-specialty paediatric services with an advanced tertiary and quaternary care services, while the spoke hospital provides secondary and emergency care, handle large outpatients as well as inpatient services ensuring wider coverage of the cities. The company has a strong brand presence in Southern India, especially in the Hyderabad; and plans to expand in the northern parts of the country.

Rainbow's asset-light, hub-and-spoke model has allowed it to increase bed capacity from 1162 beds as of Mar'19 to 1655 beds as of Mar'23; increasing the number of hospitals from 10 to 16. It reported healthy topline growth of 21.3% CAGR over FY19-23 on the back of its bed



additions and improving maturity mix profile. EBITDA margin remained healthy @ 30%+ for last couple of years. RCML follows a cost effective model and has a track record of healthy operational performance in terms of ARPOB, ALOS, occupancy. It is a onestop healthcare solution for pediatric and maternal care, and the full-time doctor engagement model has enabled Rainbow to create strong clinical excellence in managing complex tertiary & quaternary pediatric cases. RCML is well placed in India's pediatric and maternity healthcare market which is expected to grow at ~12-14% CAGR over medium term.



(Source: Company, HDFC sec)

Peer Comparison:

	Mcap (Rs cr)	Revenue			EBITDA Margin (%)			APAT		
		FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E
Rainbow Children's Medicare	9,588	1,174	1,377	1,575	33.8	32.6	32.1	211	230	258
Apollo Hospitals	74,769	16,613	19,607	22,732	12.3	13.5	14.4	819	1,191	1,636
Max Healthcare	57,741	4,563	6,798	8,012	27.2	27.7	27.6	1,104	1,290	1,526
Fortis Healthcare	23,419	6,298	7,079	7,875	17.5	18.5	19.3	589	660	805
Narayana Hrudayalaya	21,155	4,525	4,965	5,523	21.3	21.6	21.7	606	611	708

	RoE (%)			EV/EBITDA (x)		
	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E
Rainbow Children's Medicare	25.4	19.9	18.9	25.5	22.5	20.0
Apollo Hospitals	13.9	17.6	20.4	38.2	29.5	23.9
Max Healthcare	16.1	15.1	15.5	45.9	30.3	25.8
Fortis Healthcare	8.8	8.7	9.6	22.6	18.9	16.4
Narayana Hrudayalaya	33.5	24.5	22.5	22.2	20.0	17.9

(Source: Bloomberg estimates, HDFC sec)



Financials

Income Statement

(Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
Net Revenues	650.1	973.8	1173.6	1376.9	1575.4
Growth (%)	-9.6	49.8	20.5	17.3	14.4
Operating Expenses	487.2	668.9	777.2	928.1	1069.7
EBITDA	162.8	304.9	396.4	448.9	505.7
Growth (%)	-17.4	87.2	30.0	13.2	12.7
EBITDA Margin (%)	25.1	31.3	33.8	32.6	32.1
Depreciation	73.3	83.3	90.3	107.3	126.1
EBIT	89.5	221.6	306.1	341.6	379.6
Other Income	10.3	18.9	30.9	26.9	31.2
Interest expenses	44.1	53.2	55.2	57.7	62.8
PBT	55.7	187.4	281.8	310.7	347.9
Tax	16.1	48.7	69.4	78.3	87.7
RPAT	39.6	138.7	212.4	232.4	260.2
APAT	40.0	138.3	210.8	230.3	257.8
Growth (%)	-28.2	245.5	52.5	9.2	11.9
EPS	7.5	14.8	20.9	22.7	25.4

Balance Sheet

As at March (Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	54.9	105.0	101.5	101.5	101.5
Reserves	391.5	497.8	958.4	1155.8	1376.0
Shareholders' Funds	446.4	602.8	1059.9	1257.3	1477.5
Minority's Interest	2.0	3.5	5.0	7.1	9.6
Long Term Debt	505.3	558.6	559.9	609.9	649.9
Net Deferred Taxes	-2.8	-11.4	-26.0	-26.0	-26.0
Long Term Provisions & Others	5.5	5.8	7.1	9.0	10.3
Total Source of Funds	956.4	1159.2	1605.9	1857.3	2121.2
APPLICATION OF FUNDS					
Net Block & Goodwill	772.3	859.6	933.0	1125.7	1334.6
CWIP	28.8	4.6	20.9	20.9	20.9
Other Non-Current Assets	80.3	130.0	312.8	302.9	283.6
Total Non Current Assets	881.4	994.2	1266.7	1449.5	1639.0
Current Investments	10.3	22.1	58.1	58.1	58.1
Inventories	10.1	14.8	18.8	22.6	25.9
Trade Receivables	44.0	40.4	58.3	71.7	82.0
Cash & Equivalents	94.7	185.2	45.5	122.2	162.4
Other Current Assets	38.1	27.7	302.9	301.8	345.3
Total Current Assets	197.1	290.2	483.7	576.4	673.7
Short-Term Borrowings	13.2	22.4	10.5	15.5	20.5
Trade Payables	53.7	64.4	84.5	94.3	107.9
Other Current Liab & Provisions	55.2	38.5	49.5	58.9	63.1
Total Current Liabilities	122.1	125.2	144.5	168.7	191.4
Net Current Assets	75.0	165.0	339.2	407.8	482.2
Total Application of Funds	956.4	1159.2	1605.9	1857.3	2121.3



Rainbow Children's Medicare Ltd.

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23P	FY24E	FY25E
Reported PBT	55.7	187.4	281.8	310.7	347.9
Non-operating & EO items	2.4	-4.0	8.4	9.9	19.4
Interest Expenses	35.0	41.7	25.4	57.7	62.8
Depreciation	73.3	83.3	90.3	107.3	126.1
Working Capital Change	2.8	-22.0	2.3	5.1	-38.0
Tax Paid	-26.5	-62.7	-80.9	-78.3	-87.7
OPERATING CASH FLOW (a)	142.7	223.7	327.2	412.4	430.5
Capex	-75.9	-62.2	-141.2	-300.0	-335.0
Free Cash Flow	66.8	161.6	186.1	112.4	95.5
Investments	-8.4	-3.0	-35.5	0.0	0.0
Non-operating income	1.4	-110.2	-288.6	0.0	0.0
INVESTING CASH FLOW (b)	-82.9	-175.4	-465.2	-300.0	-335.0
Debt Issuance / (Repaid)	-54.0	-57.7	-158.7	55.0	45.0
Interest Expenses	-5.3	-4.5	-3.2	-57.7	-62.8
FCFE	7.6	99.3	24.2	109.7	77.7
Share Capital Issuance	0.0	27.4	266.1	0.0	0.0
Dividend	0.0	-9.3	-20.3	-33.0	-37.6
Others	-1.7	0.0	59.4	0.0	0.0
FINANCING CASH FLOW (c)	-60.9	-44.1	143.4	-35.7	-55.4
NET CASH FLOW (a+b+c)	-1.0	4.3	5.4	76.7	40.1

One Year Price Chart:



(Source: Company, HDFC sec)

Key Ratios

	FY21	FY22	FY23P	FY24E	FY25E
PROFITABILITY RATIOS (%)					
EBITDA Margin	25.1	31.3	33.8	32.6	32.1
EBIT Margin	15.3	24.7	28.7	26.8	26.1
APAT Margin	6.2	14.2	18.0	16.7	16.4
RoE	9.4	26.4	25.4	19.9	18.9
RoCE	10.7	22.4	23.9	21.0	20.4
Solvency Ratio (x)					
Debt/EBITDA	3.2	1.9	1.4	1.4	1.3
D/E	1.2	1.0	0.5	0.5	0.5
PER SHARE DATA (Rs)					
EPS	4.6	14.7	20.8	22.7	25.4
CEPS	12.9	23.6	29.7	33.3	37.8
Dividend	0.0	2.0	3.0	3.3	3.7
BVPS	50.8	64.1	104.4	123.9	145.6
Turnover Ratios (days)					
Debtor days	25	16	15	17	18
Inventory days	7	5	5	5	6
Creditors days	31	22	23	24	23
VALUATION					
P/E (x)	207.5	64.3	45.5	41.6	37.2
P/BV (x)	18.6	14.7	9.0	7.6	6.5
EV/EBITDA (x)	53.6	30.4	25.5	22.5	20.0
EV/Revenues (x)	13.4	9.5	8.6	7.3	6.4
Dividend Yield (%)	0.0	0.2	0.3	0.3	0.4
Dividend Payout (%)	0.0	13.6	14.4	14.3	14.6

(Source: Company, HDFC sec)



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