October 07, 2021

Rainbow Children's Medicare Private Limited: Rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	50.00	50.00	[ICRA]AA- (Stable); reaffirmed
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has considered the consolidated business and financial risk profiles of Rainbow Children's Medicare Private Limited (RCMPL) and its subsidiaries, collectively referred as the Rainbow Group, to arrive at the rating.

The rating factors in the established track record of the Rainbow Group in paediatrics and obstetrics healthcare through its network of sixteen hospitals in Hyderabad, Vijayawada, Bangalore, Delhi and Chennai. The Group's revenues witnessed a healthy CAGR of 31% during the period FY2016 to FY2020 on the back of enhanced bed capacity and increased average revenue per occupied bed day (ARPOB). While the revenue declined by 9.6% in FY2021 as occupancy was impacted by the Covid-19 pandemic, the company is expected to witness strong revenue growth in FY2022 on the back of improved occupancy and healthy ARPOB. The rating factors in RCMPL's healthy capital structure and coverage indicators with adjusted interest coverage of 21.2 times and adjusted total Debt/OPBDITA of 0.3 times in FY2021. ICRA notes the favourable demand outlook for healthcare services in the country due to factors such as better affordability through increasing per capita income, widening medical insurance coverage, growing awareness and under-penetration of healthcare services. Moreover, the company's liquidity position remains strong with unencumbered cash and liquid investments of Rs. 108.2 crore as on March 31, 2021.

The Group has moderate capex plans of adding 400 beds in Hyderabad, Bangalore, Delhi and Chennai at an estimated cost of Rs. 160.0 crore in the next two years, which would be funded by internal accruals and existing cash balances. The rating is constrained by the high regional concentration of revenues and profits with Hyderabad accounting for 55% of the total revenues (declined from 61% in FY2020) and most of its operating profits in FY2021. However, with expected improvement in occupancy and margins of Bangalore, Chennai and Delhi hospitals, the dependence on Hyderabad will reduce over the medium term. Further, it faces stiff competition from established hospitals in Bangalore, Delhi and Chennai, where it has limited brand recognition. Moreover, retention of doctors is a key challenge for the company, considering the competition in the healthcare industry, however, the attrition of key consultants has been low for RCMPL since its inception. ICRA also notes the exposure of hospitals to regulatory risks in terms of any restrictive pricing regulations instated by the central and state governments.

The Stable outlook on [ICRA]AA- rating reflects ICRA's opinion that the Rainbow Group would benefit from its established track record in the paediatrics and obstetrics healthcare segment and maintain stable occupancy levels and healthy ARPOB levels. Further, the capital structure and coverage indicators are expected to be comfortable with moderate capex plans.

Key rating drivers and their description

Credit strengths

Established operational track record of over two decades – RCMPL started its first hospital in 1999 at Banjara Hills, Hyderabad. Over the years RCMPL expanded operations to seven pediatric hospitals in Hyderabad, two in Vijayawada, three in Bangalore, two in Delhi, one in Chennai and one in Vizag with a total of around 1,300 operational beds as on September 30, 2021. Of the sixteen hospitals, two are outpatient clinics, eight hospitals have been operational for more than three years, four hospitals for less than three years and the remaining two hospitals are less than a year old. RCMPL operates its hospitals under the name

- "Rainbow Children's Hospital & Birthright by Rainbow. The company benefits from the established presence of its hospital brand, especially in the Hyderabad market.

Comfortable financial risk profile and liquidity position – The company's adjusted gearing (adjusting for lease liability) is low at 0.1 times as on March 31, 2021 (actual gearing is 1.0 times as on March 31, 2021 owing to lease liability of Rs. 440.3 crore as on March 31, 2021 due to application of IND AS 116 on rentals). The adjusted interest coverage is healthy at 21.2 times and adjusted Debt/OPBDIT at 0.3 times for FY2021 (actual interest coverage and Debt/OPBDIT is 3.6 and 3.1 times, respectively, due to IND AS 116). The liquidity profile is strong with cash and liquid investments of Rs. 108.2 crore as on March 31, 2021 owing to healthy accruals despite the capex incurred during the period and low working capital intensity of the hospital business. In the absence of any major debt funded capex plans and expected healthy profitability levels, the company's debt metrics and liquidity are expected to remain strong in the medium term.

Favourable demand outlook for healthcare services – The demand outlook for healthcare services is favorable due to factors such as better affordability through increasing per capita income, widening medical insurance coverage, growing awareness, under-penetration of healthcare services and technological improvements in early diagnosis and treatment. The company is expected to report healthy revenue growth in FY2022 with rebound in occupancy, which was impacted by the Covid-19 pandemic in FY2021.

Credit challenges

High concentration of revenues and operating profits – The company has high geographical concentration as Hyderabad hospitals contributed to 61% and 55% of the total revenues in FY2020 and FY2021, respectively. However, ICRA notes that the concentration has reduced over the past five years (Hyderabad hospitals accounted for ~82% of the revenues in FY2016). Further, most of the operating profits would be derived from Hyderabad hospitals. The expected operating losses from hospitals which have been operating for less than two years as well as from the proposed hospitals is likely to constrain the margins to an extent over the medium term.

Moderate capex plans – The Group is planning to add 400 beds in the next two years at an estimated cost of Rs. 160.0 crore which would be funded by existing cash balances and internal accruals. The company is setting up six hospitals in Chennai, Delhi, Bangalore and Hyderabad. This apart, it would also incur regular maintenance capex.

Significant competition – The Rainbow Group has revenue dependence on pediatrics and obstetrics specialties and faces high competition from established hospitals in Chennai, Delhi and Bangalore, where it is a recent entrant and has limited brand recognition. Also, the retention of the doctors is a key challenge for the company, given the stiff competition in the healthcare industry. However, the attrition of key consultants has been low for RCMPL since its inception.

Liquidity position: Strong

RCMPL's liquidity position is strong with expected retained cash flow from operations of Rs. 100 – 150 crore and cash and liquid investments of more than Rs. 100.0 crore. RCMPL is expected to incur of Rs. 50.0 -Rs. 100 crore per annum and has repayment obligations of Rs. 5.0 crore in FY2022 and Rs. 12.5 crore in FY2023. In addition, the company has healthy financial flexibility and it will be able to raise debt from financial institutions at a short notice, supporting RCMPL's liquidity position.

Rating sensitivities

Positive factors – ICRA may upgrade RCMPL's rating if there is a significant diversification of revenue profile while increasing scale of operations and sustaining the operating margins.

Negative factors – The rating may witness a downward pressure if there is a large debt-funded capex or if there is a material decline in operational performance resulting in adjusted RoCE (to lease liability on account of IND AS 116) below 15% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Hospitals](#)
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rainbow Children's Medicare Private Limited. As on March 31, 2021, the company had four subsidiaries that are enlisted in Annexure-2.

About the company

RCMPL operates a chain of pediatric hospitals with prenatal centers founded by Dr. Ramesh Kancharla in 1999 in Hyderabad, Telangana, with the main focus on child and women healthcare. The Rainbow Group has seven hospitals in Hyderabad, three in Bangalore, two in Vijayawada, two in Delhi, one in Chennai and one in Vizag. RCMPL operates its hospitals under the name Rainbow Children's Hospital & Birthright by Rainbow. RCMPL has two operational subsidiaries - Rainbow Specialty Hospitals Private Limited (RSHPL) and Rosewalk Healthcare Private Limited (RWHPL). RSHPL operates a cardiac hospital in Hyderabad and RWHPL runs a boutique maternity hospital in Delhi. The Group has total capacity of around 1,500 beds of which around 1,300 beds are operational as on September 30, 2021. As on September 30, 2021, on a fully diluted basis, the promoter and promoter group hold 57.6% stake and CDC Group[1] holds 31.7% and the remaining 10.7% stake is held by minority shareholders.

Key financial indicators

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	719.4	650.1
PAT (Rs. crore)	55.3	39.6
OPBDIT/OI (%)	27.9%	25.4%
PAT/OI (%)	7.7%	6.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.4
Total Debt/OPBDIT (times)	2.4	3.1
Interest Coverage (times)	4.2	3.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company; RCMPL has adopted Ind AS 116 for leases which created lease liability and impacted the leverage and coverage metrics from FY2020 onwards; however, the adjusted numbers remain healthy.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[1] CDC is UK's Development Finance Institution (DFI) wholly owned by the UK Government. It generally invests patient capital and acts as a long-term investor

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on August 31, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					October 07, 2021	October 23, 2020	December 11, 2019	November 29, 2018
1	Non-Convertible Debentures	Long Term	50.00	40.00	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-Convertible Debentures	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE961O07021	Non-Convertible Debentures	August-16	9.50%	August-24	50.00	[ICRA]AA- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Company Name	Ownership	Consolidation Approach
Rainbow Children's Hospital Private Limited	99.99%	Full Consolidation
Rainbow Women & Children's Hospitals Private Limited	99.99%	Full Consolidation
Rosewalk Healthcare Private Limited	99.99%	Full Consolidation
Rainbow Speciality Hospitals Private Limited	76.11%	Full Consolidation

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About ICRA Limited:

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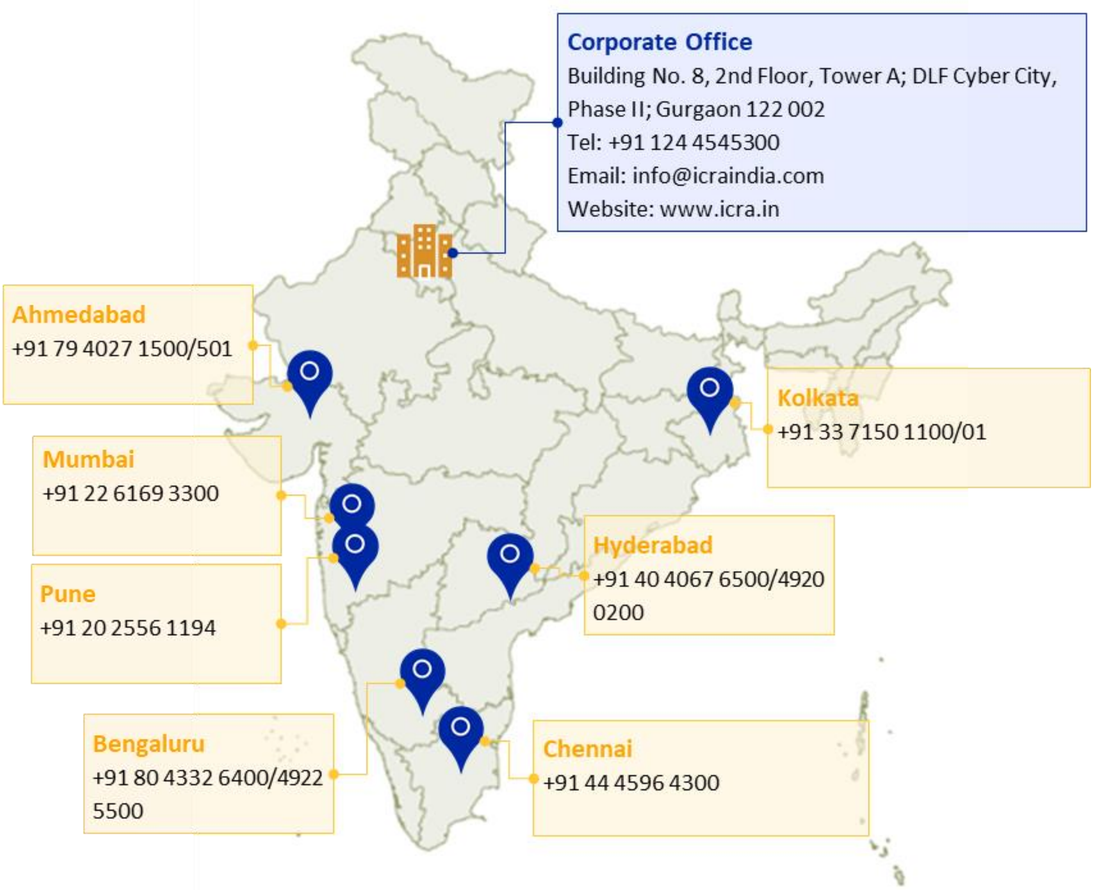

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