January 07, 2025

Rainbow Children's Medicare Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	0.00	0.00	[ICRA]AA (Stable); reaffirmed
Total	**0.00**	**0.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action considers ICRA's expectations that Rainbow Children's Medicare Limited (RCML) will continue to maintain its strong credit profile, supported by healthy growth in revenues and earnings backed by stable performance of matured hospitals and ramp-up of the new hospitals. The company clocked revenue growth of ~21% in H1 FY2025, supported by ramp-up of new beds added in FY2024 and better occupancy rates even as average revenue per occupied bed day (ARPOB) moderated marginally. RCML is expected to commence operations of three hospitals with a total capacity of 250 beds over the next 6-12 months, which, along with expected stable performance of existing hospitals, supports strong revenue and earnings visibility over the near to medium term.

The rating also considers RCML's established track record as a leading hospital chain in paediatrics and obstetrics in India with a network of 19 hospitals and four outpatient clinics across Hyderabad, Vijayawada, Visakhapatnam (both in Andhra Pradesh), Bengaluru, Delhi NCR and Chennai. RCML operates its hospitals under the names 'Rainbow Children's Hospital' & 'Birthright by Rainbow'. RCML is expected to incur Rs. 550-600 crore capex over the next three to four years, to be funded through internal accruals and existing strong cash position. The company is expected to remain debt-free (apart from the lease liabilities) in the medium term and its liquidity position remains strong with unencumbered cash and investments of ~Rs. 573 crore as of September 2024, on the back of healthy cash flow generation. The rating remains supported by 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, as well as growing awareness and under-penetration of healthcare services.

The rating is, however, constrained by the high geographic concentration of revenues and profits with Hyderabad (Telangana) accounting for a significant part of its earnings. However, the concentration risk is expected to reduce over the medium term with launch and ramp-up of new hospitals in other regions. Further, it faces healthy competition from established hospitals in Bengaluru, Delhi and Chennai, where the company is a relatively new player compared to Hyderabad. Moreover, retention of doctors is a key challenge for industry players, considering the healthy competition; however, the attrition of key consultants has been low for RCML since its inception. In addition, the company runs programmes to train doctors in paediatrics and related super specialities, which enables it in onboarding medical professionals for new and existing hospitals. ICRA also notes the exposure of hospitals to regulatory risks including the risk of restrictive pricing regulations instated by the Central and state governments.

The Stable outlook on the rating reflects ICRA's expectations that RCML's credit profile will remain supported by the expected scale-up of its operations on the back of bed additions and ramp-up of the newly added bed capacity, leading to sustained improvement in its revenues, accruals and overall financial profile.

Key rating drivers and their description

Credit strengths

Established operational track record of over two decades as leading hospital chain in paediatrics segment – RCML started its first hospital in 1999 at Banjara Hills, Hyderabad. Over the years, RCML has expanded its operations by adding eight paediatric hospitals in Hyderabad, four in Bengaluru, three in Chennai, one in Vijayawada, one in Visakhapatnam, two in Delhi, with a total of around 1,935 beds as on September 30, 2024. In addition to 19 hospitals, the Rainbow Group has four outpatient clinics. RCML operates under the brand names, 'Rainbow Children's Hospital' and 'Birth Right by Rainbow'. The company has a strong brand presence, especially in the Hyderabad market, and benefits from the established presence of its brand in the region. Going forward, the Group is planning to expand into nearby regions of Andhra Pradesh, Karnataka and Tamil Nadu, and is also adding a 400-bed hospital in Gurgaon by end of FY2028.

Comfortable financial risk profile and liquidity position – RCML's financial profile remains healthy with gearing of 0.6 times as on September 30, 2024. The interest coverage (including interest on lease obligations) was healthy at 6.3 times (6.9 times in FY2024) and Total debt (including lease liability) /OPBITDA of 1.6 times (1.8 times in FY2024) in H1 FY2025. RCML has utilised its IPO proceeds to repay its entire debt and at present, it does not have any debt apart from lease liabilities. RCML is expected to incur capex of Rs. 550-600 crore for the next three to four years; however, the capex will be entirely funded through internal accruals. In the absence of any debt-funded capex plans and expected healthy profitability levels, the company's debt metrics are expected to remain strong in the medium term. The liquidity profile is strong with cash and investments of ~Rs. 573crore as of September 2024, on the back of healthy accruals and low working capital intensity of the hospital business.

Favourable demand outlook for healthcare services – The demand outlook for healthcare services is favourable due to factors such as better affordability, widening medical insurance coverage, growing healthcare awareness, under-penetration of healthcare services and technological improvements in early diagnosis and treatment.

Credit challenges

High concentration of revenues and operating profits in Hyderabad and paediatrics/maternity – The company faces high geographical concentration risk as Hyderabad drives a significant part of its revenues and earnings. However, ICRA notes that the concentration has reduced over the past five years. Moreover, with the launch and ramp-up of new hospitals in other cities, the concentration risk is expected to reduce over the medium term. As the company caters only to paediatrics/ maternity cases, its revenues are highly concentrated. However, under paediatrics, the company is providing services like other multi-speciality hospitals i.e., cardio, renal, gastro, oncology, renal etc.

Competition from paediatrics and multidisciplinary hospital chains; exposure to regulatory risks – The Rainbow Group's revenues are dependent on paediatrics and obstetrics specialities and faces high competition from established hospitals in Chennai, Delhi and Bengaluru, where it is a recent entrant with limited brand recognition. However, RCML has plans to scale-up materially in these cities, which is expected to improve its brand identity in these regions. Also, the retention of 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 RCML since its inception. ICRA also notes the exposure of hospitals to regulatory risks, including the risk of restrictive pricing regulations instated by the Central and state governments.

Environmental and social risks

Environmental considerations: Exposure to environmental risks remains low for the healthcare industry. Few issues for industry participants include environmental impact arising from the discharge of bio-medical, pollutant and hazardous waste. According to the company's annual report, it has adopted an environmental and social governance (ESG) policy for preventing pollution, minimising waste, reducing water consumption, and identifying health and safety hazards to prevent accidents and injuries.

Social considerations: Exposure to social risks is moderate for the healthcare sector. Social risks for industry players include litigation exposure, and high compliance standards, given the importance of the service being provided. Further, regulatory factors such as price control measures could impact the earnings of industry players. Additionally, hiring and retaining quality human capital who could drive patient footfalls, which are key to earnings of industry players, remains a challenge.

Liquidity position: Strong

RCML's liquidity position is strong with expected retained cash flow from operations of Rs. 350-450 crore in the next 12 months and cash and investments of ~Rs. 573 crore as on September 30, 2024. Against these sources of cash, RCML has a capex commitment of Rs. 150-200 crore over the next 12 months. Overall, ICRA expects RCML to be able to meet its near-term commitments through internal sources of cash and generate sufficient cash surpluses. In addition, the company has healthy financial flexibility and will be able to raise debt from financial institutions at short notice, supporting its liquidity position.

Rating sensitivities

Positive factors: ICRA may upgrade RCML's rating if there is a substantial scale-up of operations with diversification of revenue profile, supported by ramp-up of the newly launched / proposed to be launched hospitals, while sustaining healthy operating margins.

Negative factors: Pressure on the rating could arise if the scale-up of operations is materially lower or if a large debt-funded capex or material decline in operational performance results in steep moderation in profitability or coverage metrics on a sustained basis. Specific credit metrics that could lead to a rating downgrade include Net Debt/OPBITDA of more than 1.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hospitals
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of Rainbow Children's Medicare Limited. As on March 31, 2024, it had six subsidiaries that are enlisted in Annexure-II.

About the company

Rainbow Children's Medicare Limited (RCML), founded by Dr. Ramesh Kancharla in 1999 in Hyderabad, Telangana, primarily focused on child and women health care, operates a chain of pediatric hospitals with prenatal centres. The Rainbow Group has eight hospitals in Hyderabad, four in Bengaluru, three in Chennai, one in Vijayawada, two in Delhi, two in Chennai and one in Vizag. RCML operates its hospitals under the name 'Rainbow Children's Hospital' & 'Birthright by Rainbow'. RCML has two operational subsidiaries, 1) Rainbow Specialty Hospitals Private Limited (RSHPL) and 2) Rosewalk Healthcare Private Limited (RWHPL). RSHPL operates a cardiac hospital in Hyderabad and RWHPL operates a boutique maternity hospital in Delhi. The Group had a total capacity of 1,935 beds as on September 30, 2024. The company has added three new hospitals in FY2024 at Himayatnagar (Hyderabad), Anna Nagar (Chennai) and Sarjapur (Bengaluru). The company went public in Q1 FY2023 and is listed on the BSE and the NSE as 'RAINBOW'.

Key financial indicators (audited)

RCML	FY2023	FY2024	H1 FY2025
Operating income	1,173.6	1,296.9	747.7
PAT	212.4	218.3	118.7
OPBDIT/OI	34.0%	33.3%	32.5%
PAT/OI	18.1%	16.8%	15.9%
Total outside liabilities/Tangible net worth (times)	0.6	0.7	0.7
Total debt/OPBDIT (times)	1.4	1.8	1.6
Interest coverage (times)	6.8	6.9	6.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
Note: All calculations are as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**Jan 07, 2025**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Issuer rating	Long term	-	[ICRA]AA (Stable)	27-Apr-23	[ICRA]AA- (Positive)				
				6-Dec-23	[ICRA]AA (Stable)				
NCD	Long term					31-Oct-22	[ICRA]AA- (Stable) Withdrawn	7-Oct-21	[ICRA]AA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not applicable

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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer rating**	NA	NA	NA	0.00	[ICRA]AA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation approach
Rainbow Children's Hospital Private Limited	100.00%	Full Consolidation
Rainbow Women & Children's Hospitals Private Limited	100.00%	Full Consolidation
Rosewalk Healthcare Private Limited	100.00%	Full Consolidation
Rainbow Speciality Hospitals Private Limited	78.81%	Full Consolidation
Rainbow Fertility Private Limited	100.00%	Full Consolidation
Rainbow C R O Private Limited	100.00%	Full Consolidation

Source: Annual report of RCML for FY2024

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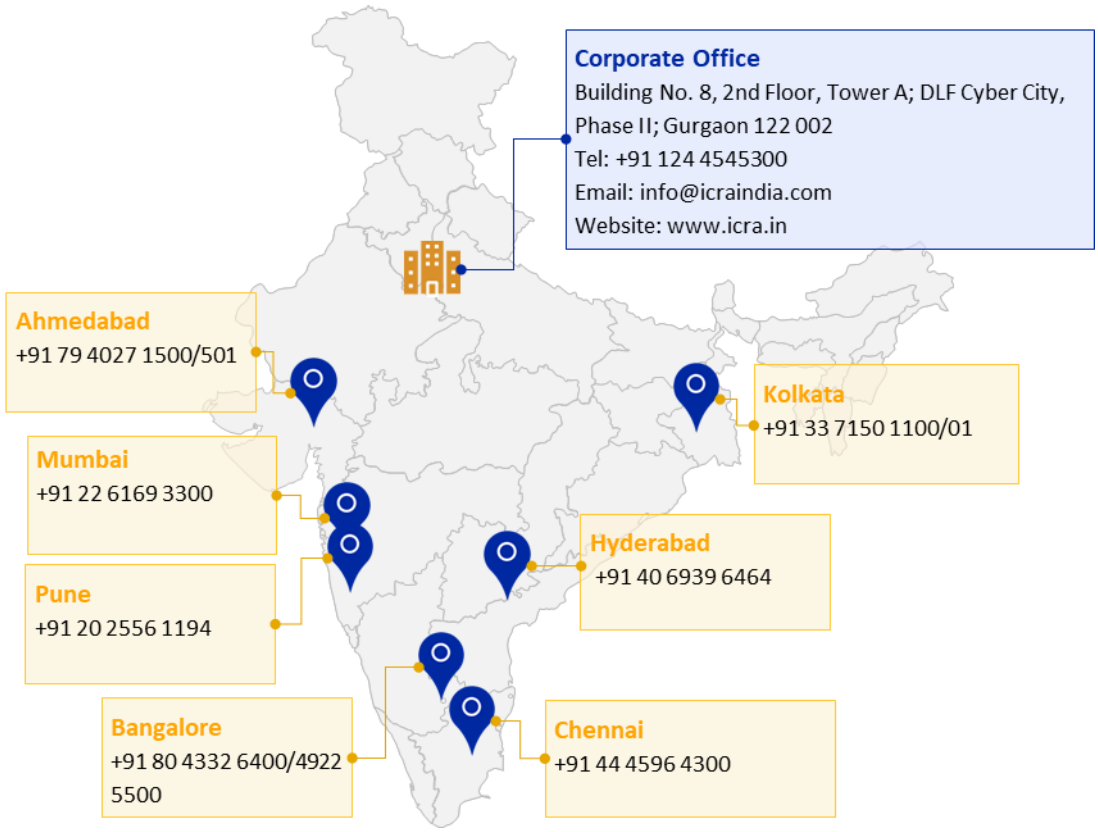

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