October 16, 2017

Rainbow Children's Medicare Private Limited

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Non Convertible Debentures	100.00	[ICRA]A+(Stable) Upgraded from [ICRA]A(Stable)

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long term rating assigned to the Rs 100.00 crore[1] Non Convertible Debentures (NCD) of Rainbow Children's Medicare Private Limited (RCMPL)[2] from [ICRA]A(pronounced ICRA A) to [ICRA]A+ (pronounced ICRA A plus). The outlook on the long term rating is 'stable'.

Rationale

The rating upgrade factors in the significant improvement in the operating income by 38% from Rs 233.04 crore in FY2016 to Rs 321.30 crore in FY2017 on account of 32% growth in inpatient admissions aided by increase in operational bed capacity to 719; and improvement in the operating margins from 12.47% in FY2016 to 17.44% in FY2017 due to better profitability from hospitals in Hyderabad and Vijayawada despite higher than projected operating losses from the two new hospitals in Bangalore. The rating also factors in the long operational track record of the RCMPL in the pediatrics healthcare segment; diversified presence with eight hospitals in Hyderabad, Vijayawada and Bangalore cities; and operational and financial support from CDC group [3]. The rating also factors in comfortable liquidity profile of the company as reflected by strong cash balances of Rs 137.41 crore as on March 31, 2017 due to healthy profitability levels along with low working capital intensity of the business; and healthy capital structure & coverage indicators characterised by gearing of 0.05 times as on March 31, 2017, interest coverage of 18.83 times, TD/OPBDITA of 0.29 and NCA/TD of 322% for FY2017.

The rating is, however, constrained by the significant capex plans of adding 675 beds over the next 2 years in Hyderabad, Delhi, Chennai and Vizag at an estimated cost of Rs 269.00 crore which will adversely impact the profitability, gearing and coverage indicators in the medium term as the capex is planned to be funded by undrawn NCD of Rs 90.00 crore from CDC group, existing cash balances, and accruals. With large capacity expansion plans in relation to its existing operations, timely completion of the same within the budgeted costs would be critical for maintaining the capital structure within the expected levels. Further, operating margins are expected to be constrained in the medium term with the expected addition of 4 hospitals by 2018 as any new hospital takes around 2-3 years to achieve cash breakeven. ICRA also notes the high competition from established hospitals in Delhi and Chennai where RCMPL would be a new entrant with limited brand recognition.

Going forward, company's ability to timely complete the capex without cost overruns, ramp up of operations at newly started hospitals and ability to retain doctors would be key rating sensitivity from credit perspective.

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[1] *100 lakh = 1 crore = 10 million*

[2] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

[3] 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

Key rating drivers

Credit strengths

- **Established operational track record:** RCMPL started the first pediatrics hospital in Hyderabad in the year 1999. RCMPL currently operates five pediatrics hospitals in Hyderabad, one hospital in Vijayawada and two in Bangalore. Further, the group is setting up four new hospitals (675 beds) in Hyderabad, Delhi, Chennai and Vishakhapatnam over the next two years at an estimated cost of Rs 269.00 crore.
- **Increase in operating income and margins:** The operating income increased by 38% from Rs 233.04 crore in FY2016 to Rs 321.30 crore in FY2017 on account of 32% growth in inpatient admissions aided by increase in operational bed capacity to 719; and improvement in the operating margins from 12.47% in FY2016 to 17.44% in FY2017 due to better profitability from hospitals in Hyderabad and Vijayawada despite higher than projected operating losses from the two new hospitals in Bangalore
- **Support from CDC group**: CDC group is UK's Development Finance Institution (DFI) wholly owned by the UK Government. CDC has invested Rs 100 crore in Rainbow hospital in August 2013 and a follow on investment of around Rs 100 crore in February 2016 to fund the rainbow group expansion plans in the medium term. Further, CDC has sanctioned additional debt of Rs 100 crore in October 2016 in the form NCDs to fund the Rainbow group medium term expansion plans.
- **Comfortable capital structure and healthy coverage indicators**: The gearing of the company is low at 0.05 times as on March 31, 2017 on account of very low debt levels. The coverage indicators are healthy with interest coverage of 18.83 times, TD/OPBDITA of 0.29 and NCA/TD of 322% for FY2017.
- **Comfortable liquidity profile:** The liquidity profile of RCMPL is comfortable due to low working capital intensity of the business and healthy profitability levels. RCMPL has liquid surplus of Rs 137.41 crore as on March 31, 2017. Further, the medium term capex plans are primarily funded by equity infusion of Rs 100 crore from CDC in February 2016 and Rs 100 crore of NCD sanctioned by CDC in October 2016.

Credit weakness

- **Significant capex plans:** RCMPL is planning to add 675 beds in the next two years at an estimated cost of Rs 269 crore which would be funded by existing cash balances, and undrawn NCD of Rs 90 crore. The capex plans would impact the financial risk profile in the near term.
- **Operating margins are expected to be constrained in the medium term**: The operating margins are expected to be constrained in the medium term with the addition of 4 new hospitals by 2018 as any new hospital takes around 2-3 years to achieve cash breakeven.
- **Retaining doctors to remain a key challenge**: Given high competition in the healthcare industry the retention of doctors would remain a key challenge for RCMPL; however the attrition of key consultants has been low for RCMPL as it has lost only few key consultants since its inception.
- **High Competition at new locations**: RCMPL would face high competition from established hospitals in Delhi and Chennai where it would be a new entrant with limited brand recognition

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable Criteria

Corporate Credit Rating Methodology
Rating Methodology for Hospitals

About the company

Rainbow Children's Medicare Private Limited (RCMPL) operates a chain of pediatric hospitals with Prenatal Centres founded by Dr. Ramesh Kancharla in 1999 at Hyderabad, Telangana with main focus towards child and women health care. Rainbow group has five hospitals in Hyderabad, two hospitals in Bangalore and one in Vijayawada, and one outpatient clinic at Madhapur, Hyderabad. In FY2017, RCMPL has started one new 50 bedded hospital in L.B Nagar, Hyderabad. The Vijayawada hospital was earlier under Rainbow Institute of Medical Sciences (RIMS) which was 100% subsidiary of RCMPL. However in 2016, RIMS merged with RCMPL and the merger was with effect from April 01, 2015. RCMPL operates its hospitals under the name "Rainbow Children's Hospital & Birthright by rainbow". RCMPL has total beds of 795 as on August 31, 2017.

RCMPL has capex plans of Rs 269.00 crore over the next two years to set up 675 beds; the company is setting up a new 225 bed hospital in Hyderabad at an estimated cost of Rs 99.00 crore with expected commercial operations date (CoD) of October 2017; and 150 bed hospital in Malviya Nagar, Delhi at an estimated cost of RS 45.00 crore under "Madhukar Rainbow Children's Hospital" with expected CoD of October, 2017. RCMPL is also expanding its presence to Chennai and Vishakhapatnam with an estimated capex of Rs 60.00 crore and Rs 66.00 crore respectively for the proposed 150 bedded hospitals. The total estimated capex is expected to be funded by existing cash balances, accruals and undrawn NCD of Rs 90.00 crore from CDC.

Key Financial Indicators

Particulars	FY2016	FY2017
Operating Income (Rs. crore)	233.04	321.30
Net Profit (Rs. crore)	16.91	31.33
OPBITDA/OI (%)	12.47%	17.44%
RoCE (%)	12.40%	14.75%
Total Debt / Tangible Net worth (times)	0.04	0.05
Total Debt / OPBITDA (times)	0.45	0.29
Interest coverage (times)	7.90	18.83
NWC/OI (%)	1%	4%

*Source:RCMPL and ICRA research ;*Provisional OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable**.**

Rating history for last three years
Table

S. No.	**Name of Instrument**	**Current Rating**			**Chronology of Rating History for the past 3 years**		
		Type (Long term/ Short term)	**Rated amount (Rs. Crore)**	**Month - year & rating in FY2018**	**Month – year & Rating in FY2017**	**Month – year & Rating in FY2016**	**Month - year & Rating in FY2015**
1	NCD	Long term	100.00	**October 2017**	July 2016		
				[ICRA]A+(Stable)	[ICRA]A(Stable)		

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
NCD			August 2024	100.00	[ICRA]A+(Stable)

Source: RCMPL

Contact Details

Analyst Contacts

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Srinivasan R
+91 44 4596 4315
r.srinivasan@icraindia.com

Vinay Kumar G
+91 40 4067 6533
vinay.g@icraindia.com

Kushal Kumar B
+91 40 4067 6521
kushal.kumar@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	