Rainbow Children's Medicare Private Limited

November 29, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	100.00	100.00	[ICRA]A+(Stable) reaffirmed
Total	**100.00**	**100.00**	

Rating action

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

Rationale

The reaffirmation of rating factors in the established track record of RCMPL in the pediatrics healthcare segment; diversified presence with twelve hospitals in Hyderabad, Vijayawada, Bangalore, Delhi and Chennai cities. The rating also factors in the improved occupancy, average revenue per occupied bed (ARPOB) and outpatients(OP) resulting in significant improvement in operating income by 25% in FY2018. The operating margins are healthy at 17.27% for FY2018 due to improved operating profits from hospitals in Hyderabad and Vijayawada despite operating losses from hospitals in Bangalore and Delhi. The rating also considers healthy capital structure & coverage indicators with gearing of 0.04 times as on March 31, 2018, interest coverage of 16.3 times and Total Debt/OPBDITA of 0.2 times. ICRA also notes the positive demand outlook for healthcare services in the country, due to factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services.

The rating is, however, constrained by the ongoing capex plans of adding 175 beds including an outpatient clinic in Hyderabad and Vizag at an estimated cost of Rs 80.32 crore over the next 2 years; nascent stage of hospital operations at Bangalore, Delhi and Chennai which will constrain the improvement in profitability margins in the medium term; and high competition from established hospitals in Bangalore, Delhi and Chennai where RCMPL is a new entrant with limited brand recognition. Further, retention of the doctors remains a key challenge for the company, given the stiff competition in the healthcare industry.

Outlook: Stable

ICRA believes that Rainbow Children's Medicare Private Limited will continue to benefit from its established track record in Paediatric childcare. The outlook may be revised to 'Positive' if there is substantial ramp up of operations in the new hospitals at Bangalore, Delhi and Chennai with achievement of operational breakeven. The outlook may be revised to 'Negative' in case of larger than anticipated debt funded capex or if the operational performance is weaker than expected.

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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*

Key rating drivers

Credit strengths

Established operational track record: RCMPL started the first pediatrics hospital in the year 1999 at Banjara Hills, Hyderabad. Over the years RCMPL expanded operations and currently operates six pediatric hospitals in Hyderabad, two in Vijayawada, two in Bangalore, one in Delhi and one in Chennai with a total bed strength of 1120 as on November 2018. Out of twelve hospitals of RCMPL, two are outpatient clinics, four hospitals have lower maturity with less than three years of operations and remaining six hospitals are matured hospitals being operational for more than three years.

Increase in operating income and heathy operating margins: The operating income increased by 25% from Rs 321.3 crore in FY2017 to Rs 401.8 crore in FY2018 and further to Rs 248.12 crore in H1FY2019 owing to improved occupancy along with increase in average per occupied bed day revenue(ARPOB), growth in pharmacy sales and outpatient consultation(OP) revenues. The operating margins are consistent at 17.27% for FY2018 due to improved operating profits from hospitals in Hyderabad and Vijayawada despite operating losses from hospitals in Bangalore and Delhi.

Comfortable financial risk profile and liquidity position: The gearing of the company is low at 0.04 times as on March 31, 2018 on account of low debt levels. The coverage indicators are healthy with interest coverage of 16.3 times, Total Debt/OPBDITA of 0.2 times and Net Cash Accruals/Total Debt of 464% for FY2018. The liquidity profile of RCMPL is strong with liquid cash balances of Rs 41.50 crore as on March 31, 2018. The working capital intensity is low as is the case with hospital business.

Positive industry outlook: Positive 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 for healthcare, under-penetration of healthcare services and technological improvements in early diagnosis and treatment.

Credit weaknesses

Ongoing capex plans: RCMPL is planning to add 175 beds and an outpatient clinic in the next two years at an estimated cost of Rs 80.32 crore which would be funded by existing cash balances, internal accruals and undrawn NCD of Rs 50.00 crore. The company is setting up a new 75 bed hospital in Vishakhapatnam, shifting operations of existing 70 bed hospital in Vikrampuri, Hyderabad to new 100 bed hospital, and shifting operations of outpatient (OP) clinic in Madhapur, Hyderabad to a new location over the next two years.

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 new hospitals as any new hospital takes around 2-3 years to achieve breakeven. The hospital operations are yet to achieve breakeven in Bangalore which is three years old while operating losses are expected in Delhi which is one year old and Chennai which recently commenced operations in November 2018. The losses at these hospitals are expected to constrain the improvement in margins over the medium term.

Significant competition: RCMPL would face high competition from established hospitals in Bangalore, Delhi and Chennai where it is a new entrant with limited brand recognition. Also, the retention of the doctors remains 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:

The fund flow from operations has been positive over the years on account of low working capital intensity and healthy profitability levels. However, the free cash flows have been negative due to significant capex. The company has liquid surplus of Rs ~Rs 68.00 crore, undrawn NCD of Rs 50.00 crore and undrawn over draft of Rs 19.00 crore as on October 31, 2018.

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, 2018, the company had 3 subsidiaries that are enlisted in Annexure-2

About the company:

Rainbow Children's Medicare Private Limited (RCMPL) operates a chain of pediatric hospitals with Prenatal Centers founded by Dr. Ramesh Kancharla in 1999 at Hyderabad, Telangana with main focus towards child and women health care. Rainbow group has six hospitals in Hyderabad, two hospitals in Bangalore, two in Vijayawada, and one in Chennai. RCMPL operates its hospitals under the name "Rainbow Children's Hospital & Birthright by rainbow". RCMPL has total beds of 1120 as on November 2018. RCMPL is also expanding its presence to Vishakhapatnam with an estimated capex of Rs 40.00 crore for the proposed 75 bed hospital. As on March 31, 2018 on a fully diluted basis, the promoter and promoter group holds 57.6% stake and CDC group[3] holds 31.7% and 10.7% stake is held by minority shareholders

In FY2018, the company reported a net profit of Rs. 36.27 crore on an operating income of Rs. 401.83 crore, as compared to a net profit of Rs. 31.35 crore on an operating income of Rs. 321.29 crore in the previous year.

Key Financial Indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	321.29	401.83
PAT (Rs. crore)	31.35	36.27
OPBDIT/ OI (%)	17.10%	17.27%
RoCE (%)	14.70%	15.21%
Total Debt/ TNW (times)	0.05	0.04
Total Debt/ OPBDIT (times)	0.28	0.19
Interest coverage (times)	18.98	16.27

Source: Annual Reports and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[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

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating Nov 2018	Date & Rating in FY2018 Oct 2017/June 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 Dec 2015
1	Non-Convertible Debentures	Long Term	100.00	50.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	NA
2	Bank Loan Ratings-Unallocated Limits	Short Term/Long Term	50.00	NA	NA	[ICRA]A+ (Stable)/ [ICRA]A2+ withdrawn	NA	[ICRA]A+(Stable)/ [ICRA]A2+

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-Convertible Debentures	Aug-16	9.50%	Aug-24	100.00	[ICRA]A+(Stable)

Source: Rainbow Children's Medicare Private Limited

Annexure-2: List of entities considered for consolidated analysis

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
Rainbow Speciality Hospitals Private Limited	99.99%	Full Consolidation

Source: Rainbow Children's Medicare Private Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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