ICRA

December 11, 2019

Rainbow Children's Medicare Private Limited: Rating reaffirmed; Outlook revised to Positive

Summary of rating action

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

**Instrument details are provided in Annexure-1*

Rationale

The positive outlook takes into consideration expected healthy growth in Rainbow Children's Medicare Private Limited's (RCMPL) operating income in the medium term with improving occupancy at existing hospitals along with addition of new hospitals. Further, the operating margins are expected to remain stable at 20-22% supported by improved operating margins from hospitals in Hyderabad, Bangalore and Delhi cluster. The OI increased by 35% in FY2019 and further by 29% in H1FY2020 driven by improved occupancy, average revenue per occupied bed (ARPOB) and outpatients(OP). Also, the operating margins (OPM) had improved from 17.26% in FY2018 to 23.55% in H1FY2020 due to operational breakeven of hospitals in Bangalore and Delhi.

The rating also factors in the established track record of RCMPL in pediatrics and obstetrics healthcare segment; and diversified presence with fourteen hospitals in Hyderabad, Vijayawada, Bangalore, Delhi and Chennai cities. The rating considers healthy capital structure & coverage indicators with interest coverage of 18.8 times and Total Debt/OPBDITA of 0.3 times for H1FY2020 owing to low debt levels. 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 high regional concentration with Hyderabad city accounting for 64% of total revenues and majority of total operating profits in FY2019; and revenue dependence on pediatrics and obstetrics specialties. Also, RCMPL has moderate capex plans of adding 225 beds in Hyderabad, Bangalore and Vishakhapatnam at an estimated cost of Rs 120 crore over the next 18 months. The ratings are also constrained by nascent stage of hospital operations at Chennai and the newly-acquired hospital '*Rosewalk*' in Delhi, which could constrain the profitability margins to an extent over the medium term. Further, RCMPL faces high competition from established hospitals in Bangalore, Delhi and Chennai where RCMPL has limited brand recognition and retention of the doctors remains a key challenge for the company, given the stiff competition in the healthcare industry. ICRA also notes exposure of hospitals to regulatory risks in terms of any restrictive pricing regulations instated by central and state governments.

Key rating drivers and their description

Credit strengths

Established operational track record of over two decades: RCMPL started the first hospital in the year 1999 at Banjara Hills, Hyderabad. Over the years RCMPL expanded operations to seven pediatric hospitals in Hyderabad, two in Vijayawada, two in Bangalore, two in Delhi and one in Chennai with a total bed strength of 1299 as on September 30, 2019. Out of fourteen hospitals, two are outpatient clinics, four hospitals are than three years of old and remaining eight hospitals are operational for more than three years. RCMPL operates its hospitals under the name "Rainbow Children's Hospital & Birthright by rainbow”. The maternity center acquired in Delhi is operated under the name “Rosewalk”.

Increase in operating income and heathy operating margins: The operating income of the company had increased by 35% from Rs 401.8 crore in FY2018 to Rs 542.8 crore in FY2019 and further by 25% to Rs 349.5 crore in H1FY2020 owing to increased occupied beds along with increase in per occupied bed day revenue, growth in pharmacy sales and OP consultation revenues. The OPM has improved from 17.26% in FY2018 to 20.56% in FY2019 due to breakeven of hospitals in Bangalore cluster. The OPM has further improved to 23.18% in H1FY2020 due to operational breakeven of Delhi hospital supported by improved margins from Hyderabad and Bangalore clusters.

Comfortable financial risk profile and liquidity position: The gearing of the company is low at 0.11 times as on September 30,2019. The coverage indicators are healthy with interest coverage of 18.8 times, Total Debt/OPBDITA of 0.3 times and Net Cash Accruals/Total Debt of 267% for H1FY2020. The liquidity profile of RCMPL is strong with liquid cash balances of Rs 86.1 crore as on September 30, 2019. The working capital intensity is low as is the case with hospital business.

Positive industry outlook for healthcare services: The demand outlook for healthcare services is positive 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 challenges

High concentration of revenues and operating profits on Hyderabad cluster: Hyderabad hospitals contributed to 64% and 58% of total revenues in FY2019 and H1FY2020 which declined from ~82% in FY2016. Further, most of operating profits would be derived from Hyderabad hospitals despite expected improvement in margins from Bangalore and Delhi hospitals. The expected operating losses from Chennai and Rosewalk hospitals as well as the proposed hospitals is likely to constrain the margin improvement to an extent over the medium term.

Moderate capex plans: RCMPL is planning to add 225 beds in the next 18 months at an estimated cost of Rs 120 crore which would be funded by existing cash balances and internal accruals. 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 a new hospital with 50 beds in Hebbal, Bangalore over the next two years.

Significant competition: RCMPL 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 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: Strong

RCMPL’s liquidity position is strong with expected cash flow from operations of nearly Rs. 100 crore for FY2020, cash and liquid investments of Rs. 86 crore and undrawn working capital limits of Rs. 19 crore as on September 30,2019. In relation to these sources of cash, RCMPL has capex commitment of Rs. 120 crore for next 18 months with repayment obligations of Rs 5.0 crore in FY2021 and FY2022. Overall, ICRA expects RCMPL would 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 a short notice which support RCMPL's liquidity position.

Rating sensitivities

Positive triggers: ICRA could upgrade RCMPL's rating if there is diversification of revenue profile while maintaining sustained operating margins. In addition, operational breakeven of Chennai hospital and improved operating margins from Bangalore and Delhi hospitals may lead to a rating upgrade.

Negative triggers: The ratings may witness a downward pressure if there is a large debt funded capex or if the operational performance is weaker than expected resulting in RoCE below 15% on a sustained basis. The ratings may also be impacted if there is any regulatory action in terms of any restrictive pricing regulations instated by central and state governments.

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 September 30, 2019, the company had 4 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 seven hospitals in Hyderabad, two hospitals in Bangalore, two in Vijayawada, two in Delhi and one in Chennai. RCMPL operates its hospitals under the name "Rainbow Children's Hospital & Birthright by rainbow". RCMPL has two operational subsidiaries 1) Rainbow Speciality Hospitals Private Limited (RSHPL) and 2) Rosewalk Healthcare Private Limited (RWHPL). RSHPL operates a pediatric cardiac hospital in Hyderabad whereas RWHPL operates a boutique maternity hospital under the name *'Rosewalk'* in Delhi. The group has total capacity of 1299 beds of which 1100 beds are operational as of September 30, 2019.

Key financial indicators

	FY2018	FY2019	H1FY2020
Operating Income (Rs. crore)	401.8	542.8	349.5
PAT (Rs. crore)	36.3	57.9	53.1
OPBDIT/ OI (%)	17.3%	20.6%	23.5%
RoCE (%)	15.2%	21.4%	29.2%
Total Debt/ TNW (times)	0.0	0.1	0.1
Total Debt/ OPBDIT (times)	0.2	0.5	0.3
Interest coverage (times)	16.3	19.7	18.8

Source: Annual Reports and ICRA research

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017
					11-Dec-19	29-Nov-18	16-Oct-2017	20-Jun-17	5-Jul-16
1	Non-Convertible Debentures	Long Term	100	50	[ICRA] A+ (Positive)	[ICRA] A+ (Stable)	[ICRA]A+(Stable)		[ICRA]A(Stable)
2	Bank Loan Ratings-Unallocated Limits	Short Term/Long Term	50	NA	NA	NA		[ICRA]A+(Stable)/[ICRA]A2+ withdrawn	NA

Amount in Rs.crore

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
INE961O07021	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
Rosewalk Healthcare Private Limited	99.99%	Full Consolidation
Rainbow Speciality Hospitals Private Limited	76.11%	Full Consolidation

Source: Rainbow Children's Medicare Private Limited

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About ICRA Limited:

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