



Rainbow Children's Medicare Private Limited

Instrument	Amount in Rs. Crore	Rating Action
Proposed bank limits	50.00	[ICRA]A(Stable)/[ICRA]A2+ assigned

ICRA has assigned a long-term rating of **[ICRA]A** (pronounced ICRA A) and a short term rating of **[ICRA]A2+** (pronounced ICRA A two plus) to Rs 50.00 crore* proposed bank limits of Rainbow Children's Medicare Private Limited (RCMPL/the company)[†]. The outlook on long term rating is stable

ICRA has taken a consolidated view of the Rainbow group which includes RCMPL and its 100% operational subsidiary, Rainbow Institute of Medical Sciences Private Limited (RIMS).

The assigned ratings favorably factor in the long operational track record of the Rainbow group in the pediatrics healthcare segment; diversified presence of the group with six hospitals in Hyderabad, Vijayawada and Bangalore cities; and operational and financial support from CDC group plc which invested Rs 100 crore in August 2013 towards capacity expansion of the Rainbow group. The ratings also factor in consistent increase in operating income over the years from Rs 78.31 crore in FY12 to Rs 169.27 crore in FY15 on account of improvement in inpatient occupancy levels coupled with increased bed capacity; comfortable liquidity profile of the company as reflected by healthy cash balances due to low working capital intensity of the business; and the current healthy capital structure & coverage indicators characterized by gearing of 0.09 times as on March 31, 2015 along with interest coverage of 13.08 times, TD/OPBDITA of 0.40 and NCA/TD of 193% for FY15.

The ratings are, however, constrained given the significant capex plans of adding 625 beds over the next 3 years in Hyderabad, Chennai, Bangalore and Vizag at an estimated cost of Rs 255 crore; the same is planned to be funded by existing cash balances, follow on equity investment of around Rs 100 crore from CDC group plc and Rs 100 crore planned term loans. With this capacity expansion being planned on a large scale 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, the operating margins are expected to be constrained in the medium term upon the commencement of the proposed new hospitals, similarly in line to the recent addition of new hospitals as witnessed in H1FY16 with operating margin declining to 12.81% in H1FY16 from 24.16% in FY15 due to low occupancies at two new hospitals. These apart, the ratings also take into consideration the competition from established hospitals in Bangalore and Chennai where RCMPL would be a new entrant with limited brand recognition.

Going forward, in addition to the company's ability to complete the capex without time and cost overruns, its ability to retain doctors and ramp up of operations at newly started hospitals while maintaining healthy operating performance in its existing units would be key rating sensitivity from credit perspective.

Company Profile

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 four hospitals in Hyderabad, one hospital each in Vijayawada and Bangalore, and one outpatient clinic at Madhapur, Hyderabad. In FY16, RCMPL has started one new 70 bedded hospital in Hydernagar, Hyderabad and new 175 bedded hospital in Bangalore. The hospital in Vijayawada is operated through the subsidiary Rainbow Institute of Medical Sciences (RIMS). The group operates its hospitals under the name "Rainbow Children's Hospital & Birthright by Rainbow". The total number of beds of RCMPL and its subsidiary RIMS are 645.

* 100 lakh = 1 crore = 10 million

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



RCMPL has capex plans of Rs 255 crore over the next three years to set up 625 beds; the company is setting up a new 100 bed hospital in Bannerghatta road, Bangalore at an estimated cost of Rs 45 crore with expected COD of December 2015, 225 bed hospital in Hyderabad at an estimated cost of Rs 90.00 crore with expected COD of July 2017. RCMPL is also expanding its presence to Chennai and Vishakhapatnam with an estimated capex of Rs 60.00 crore at each location for the proposed 150 bedded hospitals. The total estimated capex for the new hospitals at Bangalore, Hyderabad, Chennai and Vishakhapatnam is around Rs 255 crore which is expected to be funded by Rs 100 crore follow on investment from CDC group plc, Rs 100 crore planned term loans and remaining from existing cash balances.

Recent Results

The company reported a net profit of Rs. 24.75 crore on operating income of Rs. 169.27 crore in FY 2015 and net profit of Rs. 16.72 crore on operating income of Rs. 110.54 crore in H1 FY 2016 (Provisional and Unaudited).

November 2015

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