

October 31, 2022

## Rainbow Children's Medicare Limited: Rating reaffirmed and withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	50.00	50.00	[ICRA]AA-(Stable); reaffirmed and withdrawn
<b>Total</b>	<b>50.00</b>	<b>50.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

ICRA has reaffirmed and withdrawn the rating assigned to the Non-Convertible Debentures (NCD) of Rainbow Children's Medicare Limited (RCML) as the company has repaid the entire NCD. This is in line with ICRA's policy on the withdrawal of credit ratings. The rating factors in the established track record of the Rainbow Group in paediatrics and obstetrics healthcare through its network of 18 hospitals across Hyderabad, Vijayawada (Andhra Pradesh), Visakhapatnam (Andhra Pradesh), Bangalore, Delhi and Chennai. The company's revenues witnessed a healthy growth of 49.8% in FY2022 on the back of enhanced bed capacity and increased average revenue per occupied bed day (ARPOB). The occupancy rate, which was impacted by the Covid-19 pandemic in FY2021, recovered to 44.6% in FY2022 and 43.1% in Q1 FY2023 owing to ease of mobility with lifting of lockdowns and travel restrictions. The occupancy is expected to improve in FY2023 despite the 145-bed addition likely during the year, which along with stable ARPOB and capacity addition may result in 8-12% revenue growth. The company's operating margins are also expected to remain healthy at over 30%. RCML has raised Rs. 280 crore through an IPO in May 2022, a large part of which would be utilised to fund its expansion plans of adding ~800-1,000 beds over the next five years. RCML's phased expansion plan is expected to support its revenue growth in the medium term. It utilised Rs. 40.0 crore raised through IPO to repay its outstanding NCD; as on date, it does not have any external debt, apart from lease liabilities. The rating factors in RCML's healthy capital structure and coverage indicators. ICRA notes the 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. Moreover, the company's liquidity position remains strong with unencumbered cash and liquid investments of ~Rs.477 crore as on June 30, 2022 with additional cash inflow from the IPO.

The rating is, however, constrained by the high regional concentration of revenues and profits with Hyderabad 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 cities. Further, it faces stiff competition from established hospitals in Bangalore, Delhi and Chennai, where it has limited brand recognition. Moreover, retention of doctors is a key challenge for the company, considering the 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.

The Stable outlook on the [ICRA]AA- rating indicates ICRA's belief that the company will continue to witness healthy growth in its scale of operations and will maintain a comfortable capital structure and coverage metrics.

### Key rating drivers and their description

#### Credit strengths

**Established operational track record of over two decades** – RCML started its first hospital in 1999 at Banjara Hills, Hyderabad. Over the years, RCML has expanded its operations to six paediatric hospitals in Hyderabad, one in Vijayawada, three in Bangalore, two each in Delhi and Chennai, and one in Vishakhapatnam, with a total of around 1,500 beds (1,150 operational) as on June 30, 2022. Of the 18 hospitals, three are outpatient clinics, eight have been operational for more than three years and seven for less than three years. RCML operates under the brand name, "Rainbow Children's Hospital & 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.

**Comfortable financial risk profile and liquidity position** – RCML raised Rs. 280 crore through an IPO in May 2022, a large part of which is to be utilised to fund its expansion plans of adding ~800-1,000 beds over the next five years. RCML's planned phased expansion is expected to support its revenue growth in the medium term. It utilised Rs. 40.0 crore raised through IPO to repay its outstanding NCD; as on date, it does not have any external debt apart from the lease liabilities. The company's gearing was moderate at 1.0 time as on March 31, 2022 with lease liability of Rs. 531.4 crore. The interest coverage was healthy at 5.7 times (3.6 times in FY2021) and TD/OPBITDA of 1.9 times (3.1 times in FY2021) in FY2022. The liquidity profile was strong with cash and liquid investments of ~Rs. 477 crore as on June 30, 2022, after the Rs. 280-crore inflow from the IPO in FY2023. In the absence of any major debt-funded capex plans and expected healthy profitability levels, the company's debt metrics and liquidity are expected to remain strong in the medium term.

**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. The company is expected to report healthy revenue growth in FY2023 with recovery in occupancy rates.

### Credit challenges

**High concentration of revenues and operating profits** – 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 and with the launch and ramp-up of new hospitals in other cities this is expected to reduce over the medium term.

**Moderate capex plans** – The Group is planning to add 800-1,000 beds in the next five years at an estimated cost of Rs. 600-700 crore. However, since the capex will be incurred in a phased manner, ICRA expects the company to generate healthy profit margins. RCML has sizeable cash balances, which along with likely retained cash flows, would be utilised to fund the capex.

**Significant competition** – The Rainbow Group has revenue dependence on paediatrics and obstetrics specialities and faces high competition from established hospitals in Chennai, Delhi and Bangalore, where it is a recent entrant with limited brand recognition. 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 their discharge of bio-medical, pollutant and hazardous waste. The company has adopted ESG policy aimed at prevention of pollution, minimizing waste, reducing water consumption, and effective monitoring for 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 standard requirements given the importance of the service being provided. Further, regulatory nature such as price control measures could impact the earnings of industry players. Additionally, hiring and retaining quality human capital who could drive patient footfalls are key to earnings of industry players.

### Liquidity position: Strong

RCML's liquidity position is strong with expected retained cash flow from operations of nearly Rs. 140-160 crore in FY2023 and cash and liquid investments of ~ Rs. 477.0 crore as on June 30, 2022. RCML has capex commitment of around Rs. 150 crore for the next 12 months and nil repayment obligations. In addition, it has healthy financial flexibility and will be able to raise debt from financial institutions at a short notice, which support RCML's liquidity position.

### Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – Not applicable

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Hospitals</a> <a href="#">Policy on withdrawal of credit ratings</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Rainbow Children's Medicare Limited. As on March 31, 2022, it had six subsidiaries that are enlisted in Annexure-2.

## About the company

RCML operates a chain of paediatric hospitals with prenatal centres. The company was founded in 1999 by Dr. Ramesh Kancharla in Hyderabad, with its focus on child and women healthcare. The Rainbow Group has six hospitals in Hyderabad, three in Bangalore, two each in Delhi and Chennai, and one each in Vijayawada and Visakhapatnam. The Group also has three outpatient clinics in Hyderabad, Vijayawada and Visakhapatnam. RCML operates under the brand, "Rainbow Children's Hospital" & "Birthright by Rainbow". RCML's operational subsidiaries, Rainbow Specialty Hospitals Private Limited (RSHPL) operates a cardiac hospital in Hyderabad and Rosewalk Healthcare Private Limited (RWHPL) runs a boutique maternity hospital in Delhi. The Group has a total capacity of around 1,500 beds, of which around 1,150 were operational as on June 30, 2022.

### Key financial indicators (audited)

	FY2021	FY2022
Operating income	650.1	973.8
PAT	39.6	138.7
OPBDIT/OI	25.4%	31.3%
PAT/OI	6.1%	14.2%
Total outside liabilities/Tangible net worth (times)	1.4	1.1
Total debt/OPBDIT (times)	3.1	1.9
Interest coverage (times)	3.6	5.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; RCML has adopted Ind AS 116 for leases which created lease liability and impacted the leverage and coverage metrics from FY2020 onwards; however, the adjusted numbers remain healthy.

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

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Aug 31, 2022 (Rs. crore)	Date & rating in FY2023	FY2022	FY2021	FY2020	
					Oct 07, 2021	Oct 23, 2020	Dec 11, 2019	
1 NCD	Long term	50.00	-	[ICRA]AA-(Stable) Withdrawn	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Non Convertible Debentures	Very Simple

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: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE961O07021	Non convertible debentures	August 2016	9.5%	August 2024	50.00	[ICRA]AA-(Stable) Withdrawn

Source: Company

## Annexure II: 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	78.81%	Full Consolidation
Rainbow Fertility Private Limited	99.99%	Full Consolidation
Rainbow C R O Private Limited	99.99%	Full Consolidation

Source: Annual report of RCML for FY2022

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### Branches



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