April 27, 2023

Rainbow Children's Medicare Limited: [ICRA]AA-(Positive) Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	0.00	[ICRA]AA-(Positive); assigned
Total	0.00	

**Instrument details are provided in Annexure-I*

Rationale

The rating considers Rainbow Children's Medicare Limited's (RCML) established track record as a leading hospital chain in paediatrics and obstetrics in India with a network of sixteen hospitals and three outpatient clinics across Hyderabad, Vijayawada, Visakhapatnam (both in Andhra Pradesh), Bengaluru, Delhi-NCR and Chennai. The company's revenues witnessed a healthy YoY growth of 49.8% in FY2022 and 17.3% in 9M FY2023 on the back of enhanced bed capacity and increased occupancies. The occupancy rate, which was impacted by the Covid-19 pandemic in FY2021, recovered to 44.6% in FY2022 and further to 54.2% in 9M FY2023 owing to ease of mobility with lifting of lockdowns and travel restrictions. The occupancy is expected to remain healthy in near term despite 150-200 bed additions per year for the next three years, which along with stable average revenue per occupied bed (ARPOB) and capacity addition is expected to result in 15-20% revenue growth per annum. The company's operating margins are also expected to remain healthy at over 30%.

RCML has raised Rs. 280.0 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 an IPO to repay its outstanding non-convertible debentures (NCDs); as on date, it does not have any 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 more than Rs.500 crore as of February 2023, on the back of healthy cash flow generation and funds raised through IPO. Hence, despite its material expansion plans, ICRA expects RCML to remain debt-free in the medium term.

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 healthy competition from established hospitals in Bengaluru, Delhi and Chennai, where the company is relatively a newer player as compared to Hyderabad. Moreover, retention of doctors is a key challenge for the players in the industry, considering healthy competition; however, the attrition of key consultants has been low for RCML since its inception. In addition, the company also runs programmes to train doctors in paediatrics and paediatrics super specialties which enables it in onboarding medical professionals for new and existing hospitals. 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 Positive outlook on the rating indicates ICRA's opinion that the improvement in company's credit profile will be supported by the expected increase in the company's scale of operations, going forward, with substantial capacity addition planned over the next four years while it maintains healthy margins, and comfortable capital structure and coverage metrics.

Key rating drivers and their description

Credit strengths

Established operational track record of over two decades as leading hospital chain in paediatrics segment – RCML started its first hospital in 1999 at Banjara Hills, Hyderabad. Over the years, RCML has expanded its operations by adding seven paediatric hospitals in Hyderabad, one in Vijayawada, three in Bangalore, two each in Delhi and Chennai, and one in Visakhapatnam, with a total of around 1,655 beds (~1,230 operational) as on March 15, 2023. In addition to 16 hospitals the group also has three outpatient clinics. Eight of the hospitals 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" and "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. Going forward, the group is planning to expand into nearby regions of Andhra Pradesh and Tamil Nadu apart from Hyderabad and has plans to diversify to the northern and north-eastern parts of country.

Comfortable financial risk profile and liquidity position – RCML has utilised its IPO proceeds to repay its entire debt; currently it does not have any debt apart from lease liabilities. The financial profile of RCML remained healthy with gearing of 1.0 time as on March 31, 2022, which improved to 0.6 time as on September 30, 2022 on the back of fresh equity issue of Rs. 280 crore through IPO in May 2022. The interest coverage was healthy at 7.3 times (5.7 times in FY2022) and TD/OPBITDA of 1.5 times (1.9 times in FY2022) in 9M FY2023. The liquidity profile is strong with cash and liquid investments of more than Rs. 500 crore as of February 2023 owing to healthy accruals and low working capital intensity of the hospital business. The funds raised through IPO money in May 2022, will 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. 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 FY2024 with improvement in occupancy rates and bed addition.

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. Moreover, with the launch and ramp-up of new hospitals in other cities, the concentration risk is expected to reduce over the medium term.

Phased capex plans – The Group is planning to add 800-1,000 beds in the next five years at an estimated cost of Rs. 650-700 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.

Healthy competition – The Rainbow Group has revenue dependence on paediatrics and obstetrics specialities and faces high competition from established hospitals in Chennai, Delhi and Bengaluru, where it is a recent entrant with limited brand recognition, however the company has substantial scale-up plans in these cities which is expected to improve the brand identity in these regions. 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 the discharge of bio-medical, pollutant and hazardous waste. The company has adopted environmental and social governance (ESG) policy aimed at preventing pollution, minimising 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 standards given the importance of the service being provided. Further, regulatory factors such as price control measures could impact the earnings of industry players. Additionally, hiring and retaining quality human capital who could drive patient footfalls, which 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. 275-300 crores in FY2024 and cash and liquid investments of more than Rs. 500 crores as of February 2023. RCML has capex commitment of around Rs. 300-350 crore for the next 12 months and nil term loan repayment obligations. In addition, it has healthy financial flexibility and will be able to raise debt from financial institutions at a short notice.

Rating sensitivities

Positive factors: ICRA may upgrade RCML's rating if it diversifies its revenue profile while increasing scale of operations and sustaining healthy operating margins.

Negative factors: The outlook may be revised to Stable if the scale-up of operations is materially lower or if a large debt-funded capex or material decline in operational performance results in steep moderation in profitability or coverage metrics. Specific credit metric that could lead to downgrade in rating include Net Debt/OPBITDA of more than 1.5 times on a sustained basis.

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 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 seven hospitals in Hyderabad, three in Bengaluru, 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" and "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 1,655 beds, of which around 1,230 were operational as on March 15, 2023.

Key financial indicators (audited)

RCML	FY2021	FY2022	9M FY2023*
Operating income	650.1	973.8	856.6
PAT	39.6	138.7	158.5
OPBDIT/OI	25.4%	31.3%	34.8%
PAT/OI	6.1%	14.2%	18.5%
Total outside liabilities/Tangible net worth (times)	1.4	1.1	ND**
Total debt/OPBDIT (times)	3.1	1.9	ND**
Interest coverage (times)	3.6	5.7	7.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Unaudited 9M FY2023; ND = No data for debt and net worth for 9M FY2023***

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	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2022 (Rs. crore)	Date & rating in FY2024	FY2023	FY2022	FY2021
					Apr 27, 2023	-	-	-
1	**Issuer rating**	Long term	0.00	-	**[ICRA]AA-(Positive)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not applicable

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	NA	NA	NA	0.00	[ICRA]AA-(Positive)

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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