

December 06, 2023

Rainbow Children's Medicare Limited: Rating upgraded to [ICRA]AA from [ICRA]AA- and outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	0.00	0.00	[ICRA]AA (Stable) upgraded from [ICRA]AA- (Positive) and outlook revised to Stable from Positive
Total	0.00	0.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade factors in expected healthy scale-up of Rainbow Children's Medicare Limited's (RCML) operations on the back of bed additions, improved performance of hospitals launched in the past two years, and growth in average revenue per occupied bed day (ARPOB) leading to sustained growth in earnings and credit metrics. The company is expected to record a healthy revenue growth at a CAGR of 12-15% over the next three years supported by over 600 bed additions and healthy growth in ARPOB. While occupancy moderated to ~46% in H1 FY2024 (against ~53% in H1 FY2023) owing to delayed onset of the monsoon and bed additions over the past two quarters, it is expected to normalise to ~50-55% in the near term, despite the planned bed additions. ARPOB, which was high in H1 FY2024 owing to case and payer mix, is also expected to normalise and record a growth of 5-8% per annum. Despite some moderation from ~34% in FY2023, the company's operating margin was healthy at ~32% in H1 FY2024. Although initial operating expenditure towards new hospitals is expected to moderate the company's margins to an extent in the near term, the operating margin is likely to remain healthy at 29-32% in the near term. RCML is expected to incur Rs. 700-750 crore capex over the next three years. The entire capex would be funded through internal accruals and the company is expected to remain debt-free in the medium term.

The rating considers RCML's established track record as a leading hospital chain in paediatrics and obstetrics in India with a network of 16 hospitals and three outpatient clinics across Hyderabad, Vijayawada, Visakhapatnam (both in Andhra Pradesh), Bengaluru, Delhi NCR and Chennai. The rating further 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.450.0 crore as of September 2023, on the back of healthy cash flow generation.

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 a relatively new player as compared to Hyderabad. Moreover, retention of doctors is a key challenge for industry players, considering the healthy competition; however, the attrition of key consultants has been low for RCML since its inception. In addition, the company runs programmes to train doctors in paediatrics and related super specialities, 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 Stable outlook on the rating reflects ICRA's expectations that RCML is expected to scale-up its operations on the back of bed additions and ramp-up of the recently added bed capacity, along with sustained improvement in its accruals and credit profile.

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 eight (including Central Hyderabad hospital which commenced in November 2023) paediatric hospitals in Hyderabad, one in Vijayawada, three in Bengaluru, two each in Delhi and Chennai, and one in Visakhapatnam, with a total of around 1,765 beds (~1,290 operational) as on November 30, 2023 (including recently added hospital in Central Hyderabad). In addition to 17 hospitals, the Rainbow group also has three outpatient clinics. Twelve of the hospitals have been operational for more than three years and five 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, with plans to add a 400-bed hospital in Gurgaon by end of FY2027.

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 0.6 time as on September 30, 2023. The interest coverage (including interest on lease obligations) was healthy at 6.7 times (6.8 times in FY2023) and TD (including lease liability) /OPBITDA of 1.6 times (1.4 times in FY2023) in H1 FY2024. RCML is expected to incur capex of ~Rs. 340-380 crore in FY2024 and ~Rs. 700-750 crore during FY2024–FY2026; however, the capex will be entirely funded through internal accruals. In the absence of any debt-funded capex plans and expected healthy profitability levels, the company's debt metrics are expected to remain strong in the medium term. The liquidity profile is strong with cash and liquid investments of more than Rs. 450.0 crore as of September 2023, on the back of healthy accruals and low working capital intensity of the hospital business.

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.

Credit challenges

High concentration of revenues and operating profits on Hyderabad cluster and paediatrics/maternity – 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. Since the company caters only to paediatrics/maternity cases, its revenues are highly concentrated on them.

Competition from paediatrics and multidisciplinary hospital chains; exposure to regulatory risks – The Rainbow Group's revenues are dependent on paediatrics and obstetrics specialties and faces high competition from established hospitals in Chennai, Delhi and Bengaluru, where it is a recent entrant with limited brand recognition. However, RCML has substantial plans to scale up in these cities, which is expected to improve its 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 an environmental and social governance (ESG) policy for preventing pollution, minimising waste, reducing water consumption, and 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, remains a challenge.

Liquidity position: Strong

RCML's liquidity position is strong with expected retained cash flow from operations of Rs. 250-300 crore in the next 12 months and cash and liquid investments of more than Rs. 450.0 crore as on September 30, 2023. Against these sources of cash, RCML has a capex commitment of ~Rs. 180-220 crore over the next 12 months. Overall, ICRA expects RCML to 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, supporting its liquidity position.

Rating sensitivities

Positive factors: ICRA may upgrade RCML's rating if there is a substantial scale-up of operations with diversification of revenue profile while sustaining healthy operating margins.

Negative factors: Pressure on the rating could arise 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 on a sustained basis. Specific credit metrics that could lead to a rating downgrade include Net Debt/OPBITDA of more than 1.0 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, 2023, it had six subsidiaries that are enlisted in Annexure-II.

About the company

Rainbow Children's Medicare Limited operates a chain of paediatric hospitals with prenatal centres, founded in 1999 by Dr. Ramesh Kancharla in Hyderabad, with focus on child and women's healthcare. The Rainbow Group has Eight hospitals (including Central Hyderabad) in Hyderabad, three hospitals in Bengaluru, two in Delhi, two in Chennai, and one each in Vijayawada and Visakhapatnam. RCML operates under the name, "Rainbow Children's Hospital" and "Birthright by Rainbow". RCML has two operational subsidiaries—(i.) Rainbow Specialty Hospitals Private Limited (RSHPL); and (ii.) Rosewalk Healthcare Private Limited (RWHPL). RSHPL operates a cardiac hospital in Hyderabad and RWHPL runs a boutique maternity hospital in Delhi. The Group has a total capacity of 1,765 beds, of which 1,290 beds were operational as of November 30, 2023. The

company has added 110 beds in November 2023, of which 60 beds were added in Central Hyderabad and 50 in Hydernagar (Hyderabad). The company went public in Q1 FY2023 and is listed on the BSE and NSE as 'RAINBOW'.

Key financial indicators (audited)

RCML	FY2022	FY2023	H1 FY2024*
Operating income	973.8	1,173.6	619.8
PAT	138.7	212.4	104.6
OPBDIT/OI	31.3%	34.0%	32.2%
PAT/OI	14.2%	18.1%	16.9%
Total outside liabilities/Tangible net worth (times)	1.1	0.6	0.6
Total debt/OPBDIT (times)	1.9	1.4	1.6
Interest coverage (times)	5.5	6.8	6.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Unaudited H1 FY2024

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

Current rating (FY2024)						Chronology of rating history for the past 3 years		
Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 30, 2023 (Rs. crore)	Date & rating in FY2024		FY2023	FY2022	FY2021
				Dec 06, 2023	Apr 27, 2023	Oct 31, 2022	Oct 07, 2021	Oct 23, 2020
1 Issuer rating	Long term	0.00	-	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	-	-	-
2 NCD	Long term	-	-	-	-	[ICRA]AA- (Stable) Withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)

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 (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company name	Ownership	Consolidation approach
Rainbow Children's Hospital Private Limited	100.00%	Full Consolidation
Rainbow Women & Children's Hospitals Private Limited	100.00%	Full Consolidation
Rosewalk Healthcare Private Limited	100.00%	Full Consolidation
Rainbow Speciality Hospitals Private Limited	78.81%	Full Consolidation
Rainbow Fertility Private Limited	100.00%	Full Consolidation
Rainbow C R O Private Limited	100.00%	Full Consolidation

Source: Annual report of RCML for FY2023

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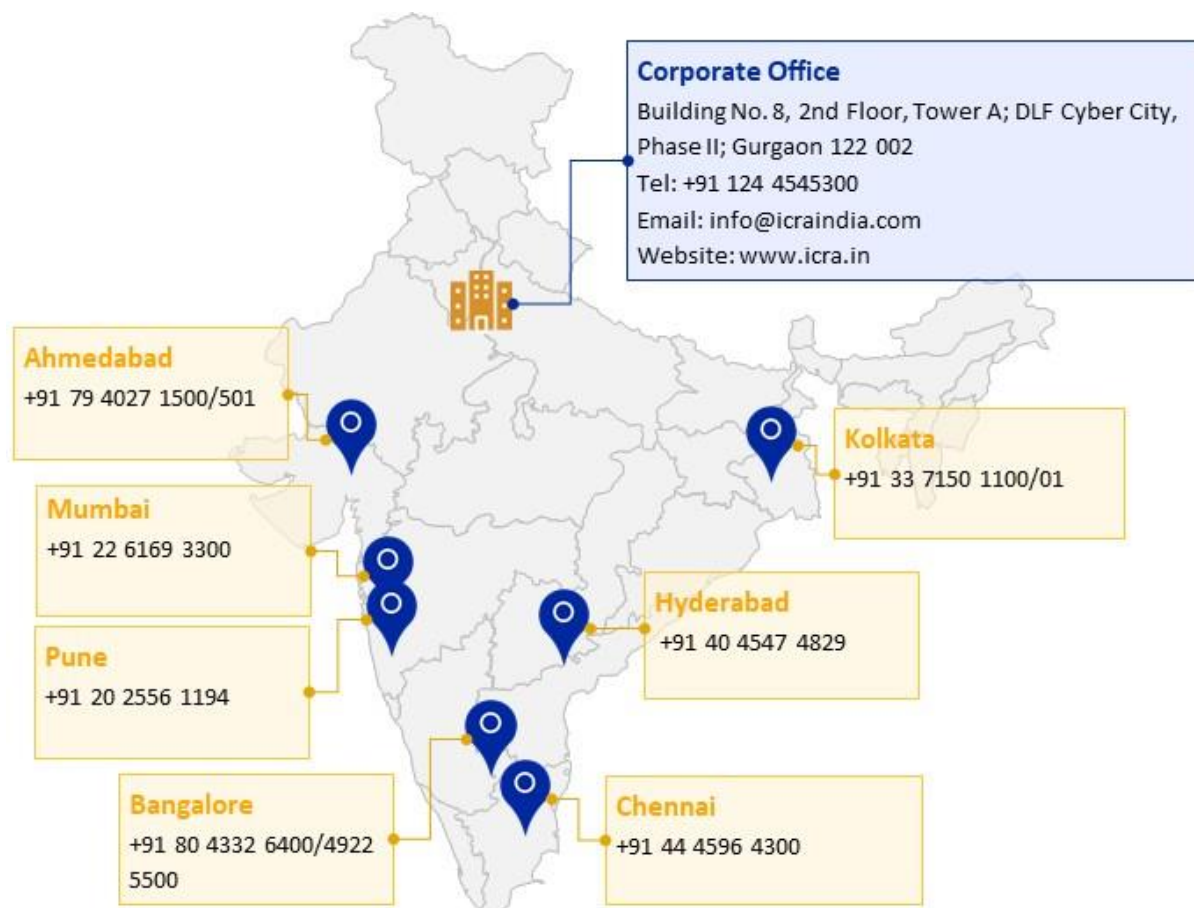


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