

Focused paediatric, obstetrics player...

About the Company: Rainbow Children's Hospital is a leading multi-specialty paediatric, obstetrics and gynaecology hospital chain in India, operating 14 hospitals and three clinics in six cities, with a total bed capacity of 1,500 beds.

- Core specialties include paediatrics, neonatal intensive care, paediatric intensive care, paediatric multi-specialty and paediatric quaternary care
- Birthright by Rainbow is one of the largest obstetrics and gynaecology service provider, which includes normal and complex obstetric care, multi-disciplinary foetal care, perinatal genetic and fertility care
- Bed capacity: 1500 (mature:1052, new:448), 9MFY22 occupancy:46% (mature:50%, new:36%), ARPOBD: ₹ 45,951, ALOS: 2.85 days

Key triggers/Highlights:

- Large underpenetrated addressable children centric hospitals market
- Leading paediatric multi-specialty healthcare chain with strong clinical expertise in managing complex diseases
- Comprehensive perinatal care provider, with synergies between paediatric and perinatal services
- Hub and spoke model that provides synergies and ensures better care and access for patients
- Proven ability to attract, train and retain high calibre medical professionals along with an experienced senior management team

What should investors do? Rainbow Children's Medicare has a focused children centric approach. The target market is expected to grow at a CAGR of 14% till FY26. However, key for Rainbow would be sustained current growth trajectory amid increased consolidation in healthcare space and margin profile. At the upper price band, it is valued at ~36.4x EV/EBITDA for FY21 and ~22.9x EV/EBITDA for 9MFY22.

- We assign **SUBSCRIBE** rating given its unique model and decent valuation

Key risk & concerns

- Dependent on ability to attract and retain medical professionals
- Dependent on Hyderabad, Bengaluru, secondary paediatric care services
- Inability to maintain sufficient occupancy levels



IPO Details

Issue Details

| | |
|-----------------------------------|-----------------|
| Issue Opens | 27th April 2022 |
| Issue Closes | 29th April 2022 |
| Issue Size (₹ crore)* | 1581 |
| Price Band (₹) | ₹ 516 - ₹ 542 |
| No. of Shares on Offer (in crore) | 2.92 |
| QIB (%) | 50 |
| Retail (%) | 35 |
| Non Institutional (%) | 15 |
| Minimum lot size (no of shares) | 27 |

* based on upper price band of ₹ 542

Shareholding pattern

| | Pre-Issue | Post-Issue |
|----------------|-----------|------------|
| Promoter Group | 62.2% | 49.8% |
| Public | 37.8% | 50.2% |

Objects of the issue

| Particulars | ₹ crore |
|--|-------------------------------|
| Early redemption of NCDs issued by the Company | 40.0 |
| Capital expenditure towards setting up of new hospitals and purchase of medical equipment for such new hospitals | 170.0 |
| General Corporate Purposes | * |
| Fresh Issue Offer for Sale** | 280.0 1300.8 |

* To be finalised post issue

**based on upper price band of ₹ 542

Research Analyst

Siddhant Khandekar
siddhant.khandekar@icicisecurities.com

Raunak Thakur
raunak.thakur@icicisecurities.com

Kush Mehta
kush.mehta@icicisecurities.com

Key Financial Summary

| ₹ crore | FY19 | FY20 | FY21 | 9MFY22 | CAGR FY19-21 (%) |
|--------------------|-------|-------|-------|--------|------------------|
| Total Revenues | 542.8 | 719.4 | 650.0 | 761.3 | 9.4% |
| Adjusted EBITDA | 148.5 | 197.0 | 162.8 | 256.7 | 4.7% |
| EBITDA Margins (%) | 27.4% | 27.4% | 25.0% | 33.7% | |
| PAT | 44.6 | 55.7 | 40.0 | 126.1 | -5.3% |
| EPS (₹) | 4.4 | 5.5 | 3.9 | 12.4 | |
| P/E (x) | 123.4 | 98.7 | 137.5 | 43.6 | |
| EV/EBITDA (x) | 39.7 | 29.9 | 36.4 | 22.9 | |
| RoE (%) | 12.0 | 13.6 | 8.9 | 21.2 | |
| RoCE (%) | 10.5 | 14.2 | 9.3 | 17.4 | |

Source: RHP, ICICI Direct Research

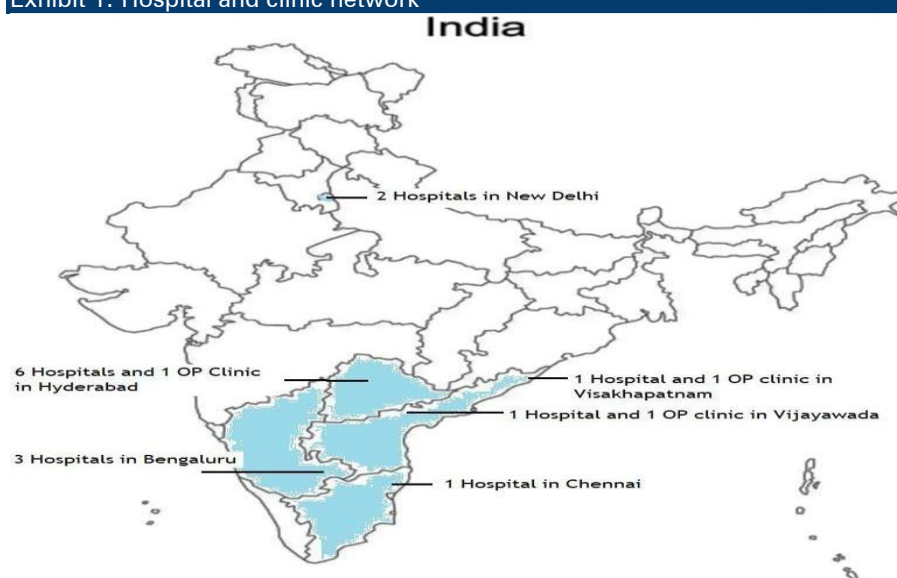
Company Background

Rainbow Children's established its first paediatric specialty hospital in 1999 in Hyderabad, Telangana. Since then, under the leadership of Dr Ramesh Kancharla, the founding promoter, the company has established its reputation as a leader in multi-specialty paediatric services, with strong clinical expertise in managing complex diseases. Rainbow has also expanded its operations to include obstetrics and gynaecology services, whereby they offer comprehensive perinatal services to patients.

Rainbow Children's offer comprehensive healthcare services across core specialties of (i) paediatrics, including new-born and paediatric intensive care, paediatric multi-specialty care services and paediatric quaternary care, including multi-organ transplants in children and (ii) obstetrics and gynaecology, including normal and complex obstetric care, multi-disciplinary foetal care and perinatal genetic care, as well as fertility treatment, where the company offers a wide range of assisted reproduction treatments.

Rainbow Children's operates a total of 14 hospitals and three clinics, five of which are NABH-accredited and three of which have received EDGE certification. The following map outlines the locations of hospitals and clinics:

Exhibit 1: Hospital and clinic network



The company follows a hub-and-spoke model in Hyderabad, Telangana with Banjara Hills hospital (comprising 250 beds) being the hub and four spokes at four locations in Hyderabad, Telangana namely Secunderabad, LB Nagar, Kondapur and Hydernagar.

At the hub hospital, Rainbow Children provides comprehensive outpatient and inpatient care with a focus on tertiary and quaternary care and, while at spokes, the company provides secondary care in paediatric, obstetrics, gynaecology and emergency services

This model has strengthened the company's market position in and around Hyderabad, Telangana providing with synergies through referrals for tertiary and quaternary care to the hub arising from the spoke hospitals

Source: RHP, ICICI Direct Research

Key Performance Indicators

Exhibit 2: Rainbow Hospitals KPIs

| KPIs | FY19 | FY20 | FY21 | 9MFY22 |
|-----------------------------|-----------|-------------|-------------|-------------|
| Bed capacity | 1,162 | 1,296 | 1,475 | 1,500 |
| Operational beds | 931 | 1,001 | 1,132 | 1,150 |
| Occupancy rate | 54.13% | 56.27% | 34.23% | 46.18% |
| Inpatient volume | 53,422 | 66,871 | 51,165 | 51,075 |
| Outpatient volume | 7,87,345 | 9,41,049 | 6,24,111 | 6,15,438 |
| Number of full-time doctors | 498 | 596 | 593 | 641 |
| Number of nurses | 1,401 | 1,485 | 1,169 | 1,586 |
| ARPOB (₹) | 97,44,124 | 1,07,15,405 | 1,49,25,896 | 1,26,36,661 |
| ARPOB/Day (₹ per day) | 26,696 | 29,277 | 40,893 | 45,951 |
| ALOS (days) | 3.2 | 3.05 | 2.57 | 2.85 |
| Basic EPS (₹) | 4.83 | 5.98 | 4.36 | 13.39 |
| RoE | 11.98% | 13.52% | 8.82% | 21.29% |
| RoCE | 11.68% | 16.32% | 10.48% | 22.06% |

Source: RHP, ICICI Direct Research

Hospitals

Exhibit 3: Hyderabad Cluster KPIs

| Hyderabad Cluster | FY19 | FY20 | FY21 | 9MFY22 |
|---------------------|--------|--------|--------|--------|
| Number of hospitals | 5 | 6 | 6 | 6 |
| Bed capacity | 595 | 705 | 705 | 730 |
| Operational beds | 445 | 495 | 495 | 513 |
| NICU beds | 124 | 134 | 134 | 154 |
| PICU beds | 61 | 76 | 76 | 83 |
| Occupancy rate | 68.6% | 71.2% | 42.9% | 59.3% |
| ALOS | 3.07 | 2.94 | 2.51 | 2.76 |
| Inpatient volume | 36264 | 43176 | 30910 | 30147 |
| Outpatient volume | 523703 | 610913 | 402669 | 394648 |

Source: RHP, ICICI Direct Research

Exhibit 4: Bengaluru Cluster KPIs

| Bengaluru Cluster | FY19 | FY20 | FY21 | 9MFY22 |
|---------------------|----------|----------|--------|--------|
| Number of hospitals | 2 | 2 | 3 | 3 |
| Bed capacity | 302 | 302 | 352 | 352 |
| Operational beds | 246 | 246 | 296 | 296 |
| NICU beds | 66 | 66 | 82 | 82 |
| PICU beds | 34 | 34 | 38 | 38 |
| Occupancy rate | 32.6% | 41.7% | 23.6% | 30.1% |
| ALOS | 2.77 | 2.73 | 2.24 | 2.51 |
| Inpatient volume | 10,550 | 13,724 | 10,411 | 9,767 |
| Outpatient volume | 1,36,306 | 1,57,560 | 89,365 | 80,518 |

Source: RHP, ICICI Direct Research

Exhibit 5: Andhra Pradesh Cluster KPIs

| Andhra Pradesh Cluster | FY19 | FY20 | FY21 | 9MFY22 |
|------------------------|--------|----------|--------|--------|
| Number of hospitals | 1 | 1 | 2 | 2 |
| Bed capacity | 130 | 130 | 259 | 259 |
| Operational beds | 128 | 128 | 209 | 209 |
| NICU beds | 36 | 36 | 52 | 52 |
| PICU beds | 18 | 18 | 33 | 33 |
| Occupancy rate | 56.5% | 50.9% | 30.3% | 36.8% |
| ALOS | 4.44 | 3.76 | 3.09 | 3.3 |
| Inpatient volume | 5,939 | 6,337 | 5,536 | 6,404 |
| Outpatient volume | 89,180 | 1,01,235 | 66,769 | 72,127 |

Source: RHP, ICICI Direct Research

Exhibit 6: New Delhi Cluster KPIs

| New Delhi Cluster | FY19 | FY20 | FY21 | 9MFY22 |
|---------------------|--------|--------|--------|--------|
| Number of hospitals | 1 | 2 | 2 | 2 |
| Bed capacity | NA | 24 | 24 | 24 |
| Operational beds | NA | 20 | 20 | 20 |
| NICU beds | NA | 6 | 6 | 6 |
| Occupancy rate | NA | 10.5% | 19.7% | 23.5% |
| ALOS | NA | 1.74 | 1.43 | 1.35 |
| Inpatient volume | NA | 374 | 1,003 | 955 |
| Outpatient volume | 32,280 | 44,457 | 36,390 | 37,929 |

Source: RHP, ICICI Direct Research

The company follows a hub-and-spoke model in Hyderabad. Under this model, super-specialty doctors based at the hub hospital are able to reach out to the larger community and cover a larger catchment area. This model has enabled Rainbow Children's to evolve over the past two decades from a single secondary care hospital in Hyderabad, Telangana to six hospitals in the city and as an established provider of tertiary and quaternary care services at the hub hospitals

The company is implementing hub-and-spoke model in Bengaluru, Karnataka as well. The hub in Bengaluru (located at Marathahalli), Karnataka is getting complex referrals from the spokes located at Bannerghatta Road, Karnataka and Hebbal, Karnataka

Exhibit 7: Chennai Cluster KPIs

| Chennai Cluster | FY19 | FY20 | FY21 | 9MFY22 |
|---------------------|-------|--------|--------|--------|
| Number of hospitals | 1 | 1 | 1 | 1 |
| Bed capacity | 135 | 135 | 135 | 135 |
| Operational beds | 112 | 112 | 112 | 112 |
| NICU beds | 37 | 37 | 37 | 37 |
| PICU beds | 15 | 15 | 15 | 15 |
| Occupancy rate | 23.2% | 36.4% | 29.6% | 50.5% |
| ALOS | 5.91 | 4.58 | 4 | 4.09 |
| Inpatient volume | 669 | 3,260 | 3,305 | 3,802 |
| Outpatient volume | 5,876 | 26,884 | 28,918 | 30,216 |

Source: RHP, ICICI Direct Research

Hospitals maturity profile

Exhibit 8: Mature hospitals

| Mature Hospitals | FY19 | FY20 | FY21 | 9MFY22 |
|-------------------|--------|--------|--------|--------|
| Bed capacity | 1,027 | 1,027 | 1,027 | 1,052 |
| Operational beds | 819 | 819 | 819 | 837 |
| Occupancy rate | 55.89% | 60.84% | 37.13% | 50.15% |
| ALOS | 3.17 | 2.93 | 2.45 | 2.69 |
| Inpatient volume | 52,753 | 62,263 | 45,380 | 42,755 |
| Outpatient volume | 749189 | 862554 | 545213 | 518165 |

Source: RHP, ICICI Direct Research

Rainbow Children's operate 14 hospitals and three clinics in six cities, with a total bed capacity of 1,500 beds. The company proposes to set up six new hospitals over the next three fiscals, i.e., (i) two hospitals in Hyderabad, Telangana in FY23, (ii) two hospitals in Bengaluru, Karnataka and NCR in FY24, and (iii) two hospitals in Chennai, Tamil Nadu and NCR in FY25

Exhibit 9: New hospitals

| New Hospitals | FY19 | FY20 | FY21 | 9MFY22 |
|-------------------|--------|--------|--------|--------|
| Bed capacity | 135 | 269 | 448 | 448 |
| Operational beds | 112 | 182 | 313 | 313 |
| Occupancy rate | 23.23% | 34.39% | 24.10% | 35.61% |
| ALOS | 5.91 | 4.67 | 3.56 | 3.68 |
| Inpatient volume | 669 | 4,608 | 5,785 | 8,320 |
| Outpatient volume | 38,156 | 78,495 | 78,898 | 97,273 |

Source: RHP, ICICI Direct Research

Rainbow Children's revenue from operations for 9MFY22 and FY21, FY20 and FY19 was ₹ 761.3 crore, ₹ 650 crore, ₹ 719.3 crore and ₹ 542.7 crore, respectively. For the same periods, profit for the period/year was ₹ 126.4 crore, ₹ 39.6 crore, ₹ 55.3 crore and ₹ 44.6 crore, respectively, while adjusted EBITDA was ₹ 256.7 crore, ₹ 162.8 crore, ₹ 197 crore and ₹ 148.5 crore, respectively.

Competitive Mapping

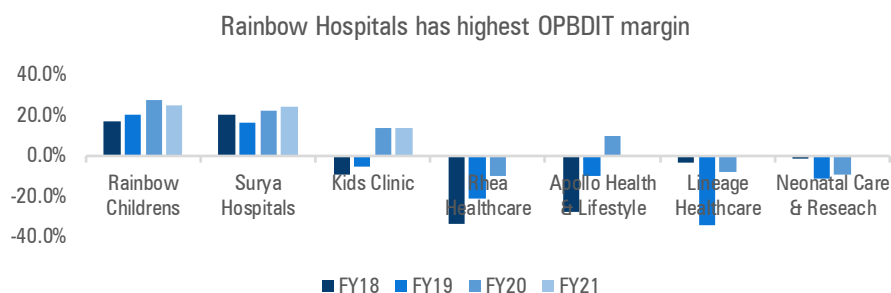
Exhibit 10: Key Financials of major players

| FY20 Key financials (₹ crore) | Operating Income | CAGR (FY18-20) | OPBDIT | CAGR (FY18-20) | PAT | CAGR (FY18-20) |
|-------------------------------|------------------|----------------|--------|----------------|-------|----------------|
| Rainbow Children's Medi | 719.4 | 34% | 197 | 71% | 55.3 | 24% |
| Apollo Health & Lifestyle | 696.4 | 23% | 65.6 | n.m. | -77 | n.m. |
| Kids Clinic India Ltd | 516.3 | 21% | 71.9 | n.m. | -33.1 | n.m. |
| Rhea Healthcare Private | 284.9 | 97% | -28.2 | n.m. | -53.9 | n.m. |
| Neonatal care & Researc | 45.6 | 24% | -4.4 | n.m. | -7.4 | n.m. |
| Surya Hospitals Pvt Ltd | 20 | 27% | 4.4 | 33% | 2.5 | 84% |
| Lineage Healthcare Limit | 13.6 | -4% | -1.1 | n.m. | -9.6 | n.m. |
| FY21 Key financials (₹ crore) | Operating Income | CAGR (FY18-21) | OPBDIT | CAGR (FY18-21) | PAT | CAGR (FY18-21) |
| Rainbow Children's Medi | 650.1 | 17% | 162.9 | 34% | 39.6 | 3% |
| Surya Hospitals Pvt Ltd | 22.3 | 22% | 5.4 | 30% | 3.1 | 61% |

Source: RHP, ICICI Direct Research

| Hospitals (FY21) | Beds |
|-----------------------|------|
| Rainbow Childrens | 1475 |
| Kids Clinic | 900 |
| Apollo Cradle | 471 |
| Rhea Healthcare | 353 |
| Surya Hospitals | 322 |
| Neonatal care & Resea | 90 |

Exhibit 11: OPBDIT margins



Source: RHP, ICICI Direct Research

| Hospitals (FY20) | OPBDIT/Beds (million) |
|-------------------------|-----------------------|
| Rainbow Childrens | 1.31 |
| Kids Clinic | 0.8 |
| Apollo Health & Lifesty | 1.39 |
| Rhea Healthcare | -0.8 |
| Surya Hospitals | 0.14 |
| Neonatal care & Resea | -0.48 |

Exhibit 12: Hospitals operational parameters in listed peers

| Key operational parameters (FY21) | No of Hospitals | No of beds | ARPOB (₹ '000 per day) | ALOS |
|---|-----------------|------------|------------------------|------|
| Rainbow Children's Medicare Ltd ^ | 14 | 1475 | 40.9 | 2.6 |
| Apollo Hospitals Enterprise Ltd | 71 | 10209 | 40.2 | 4.2 |
| Fortis Healthcare Ltd | 26 | 5310 | 43.3 | 3.6 |
| Max Healthcare Group | 16 | 3400 | 50.1 | 5.2 |
| Narayana Hrudayalaya Ltd | 21 | 6725 | 28.5 | 4.6 |
| Krishna Institute Of Medical Sciences Ltd | 9 | 3064 | 20.6 | 5.5 |
| Shalby Ltd | 11 | 2012 | 27.4 | 3.2 |
| Healthcare Global Enterprises Ltd* | 22 | 2036 | 32.6 | 2.3 |

Source: RHP, ICICI Direct Research

Exhibit 13: Key financials against listed hospitals

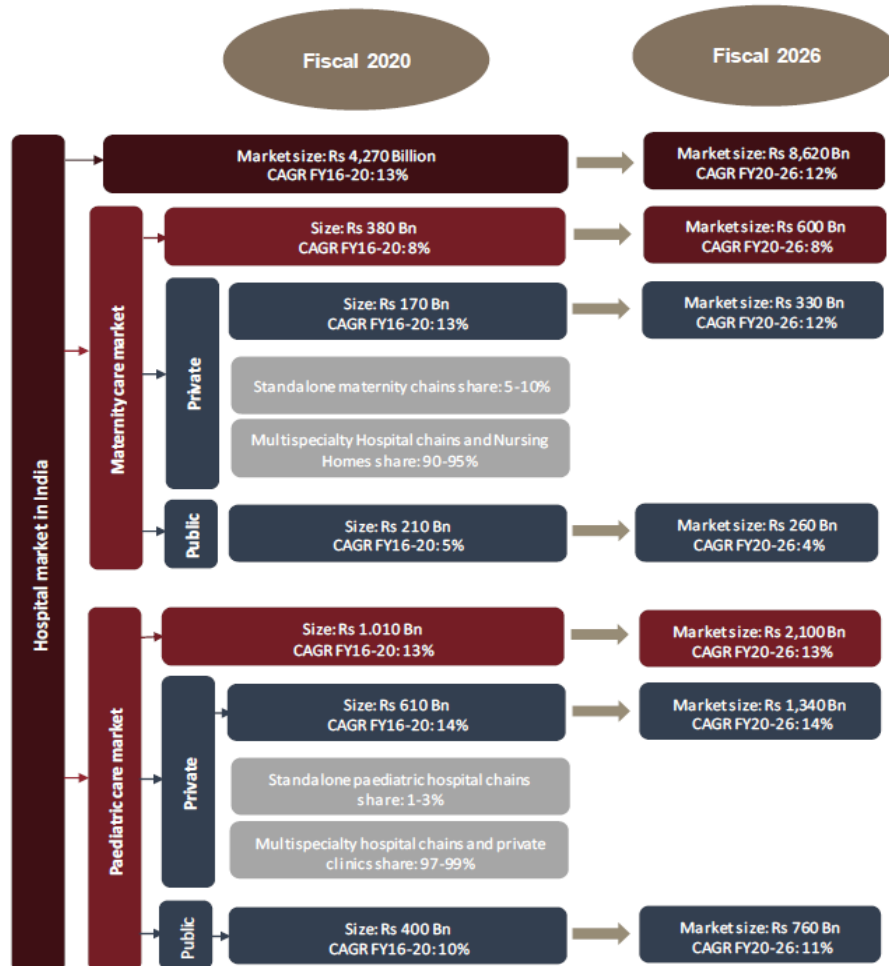
| Key financials (FY21) (₹ crore) | Operating Income | CAGR (FY19-21) | OPBDIT | CAGR (FY19-21) | PAT | CAGR (FY19-21) |
|---------------------------------|------------------|----------------|--------|----------------|--------|----------------|
| Rainbow Children's Medic: | 650.1 | 9.4% | 162.9 | 22% | 39.6 | -17% |
| Apollo Hospitals Enterprise | 10560.7 | 4.8% | 1138.1 | 3% | 136.8 | -17% |
| Fortis Healthcare Ltd | 3979.6 | -5.1% | 347.1 | 27% | -56.2 | -50% |
| Max Healthcare Group | 3861 | -0.8% | 636 | 35% | -95 | 26% |
| Narayana Hrudayalaya Ltd | 2591 | -4.8% | 190.8 | -20% | -20.7 | n.m. |
| Krishna Institute Of Medic: | 1332.8 | 20.3% | 373.8 | 49% | 205.5 | n.m. |
| Shalby Ltd | 430.9 | -3.4% | 86.4 | 2% | 40.6 | 13% |
| Healthcare Global Enterpris | 1014.6 | 2.2% | 127.8 | 4% | -221.1 | n.m. |

Source: RHP, ICICI Direct Research

Industry Overview

Crisil Research estimates the Indian healthcare delivery market will reach ₹ 5 trillion in value terms by FY22, with growth being contributed by low base and the pent-up demand from deferred treatments in FY21. A potential upside is also expected from Covid-19 treatments, especially for hospitals where occupancies were typically on the lower side. Within the overall healthcare delivery market, the IPD is expected to account for nearly 70% (in value terms), while the balance is to be catered by the OPD. Though in terms of volumes, OPD volumes outweigh IPD volumes, with the latter contributing to the bulk of the revenues to healthcare facilities. With renewed impetus from PMJAY and government focus shifting onto healthcare sector, the healthcare delivery market is expected to grow at CAGR of 15-17% and reach ₹ 7.67 trillion by FY25.

Exhibit 14: Maternity and paediatric market in India



Source: RHP, ICICI Direct Research

Growth drivers for paediatric healthcare services and neo-natal care units

Increasing health awareness to boost hospitalisation rate:

The majority of healthcare enterprises in India is more concentrated in urban areas. With increasing urbanisation (migration of population from rural to urban areas), awareness among the general populace regarding presence and availability of healthcare services for both preventive and curative care is expected to increase.

Rising income to make quality paediatric healthcare more affordable:

Even though paediatric healthcare is considered a non-discretionary expense, considering that an estimated 83% of households in India had an annual income of less than ₹ 2 lakh in FY12, affordability of quality healthcare facilities remains a major constraint. The share of households falling in the income bracket above ₹ 2 lakh is expected to go up to ~35% in FY22 from ~23% in FY17.

Paediatrics is the specialty of medical science concerned with the physical, mental, and social health of neonates, children, and adolescents. Paediatric care encompasses a broad spectrum of health services ranging from preventive health care to the diagnosis and treatment of acute and chronic diseases. Children differ from adults anatomically, physiologically, immunologically, psychologically, developmentally, and metabolically.

Neonatology is a subspecialty of paediatrics that consists of the medical care of new-born infants (0-28 days), especially the ill or premature new-born. It is a hospital-based specialty, and is usually practiced in neonatal intensive care units (NICUs). The principal patients of neonatologists are new-born infants who are ill or require special medical care due to prematurity, low birth weight, intrauterine growth restriction, congenital malformations (birth defects), sepsis, pulmonary hypoplasia or birth asphyxia.

Obstetrics is a medical specialty dealing with the fields of birth and related issues. Obstetrics involves care provided during pre-conception, pregnancy, childbirth, and immediately after delivery

There are new maternity chains such as Apollo Cradle, Cloud nine, Motherhood, Ovum, Rainbow, Fortis La Femme, Cocoon – Jaipur, etc, are specialised maternity care hospitals catering to mother and childcare. These hospitals are largely located in Tier I and Tier II cities, where the demographics includes working women, higher per capita income, propensity to spend on add-on care and comfortable healthcare facilities

Growing health insurance penetration to propel demand:

As per the Insurance Regulatory and Development Authority (IRDA), 49.9 crore people have health insurance coverage in India (as of FY20), compared to 28.8 crore (in FY15) but despite this robust growth, the penetration in the FY20 was at only 36%. Crisil Research believes that while low penetration is a key concern, it also presents a huge opportunity for the growth of the healthcare industry in India.

Rise in maternity age:

Women in the 25-29 years' age group contributed to 32% of births in 2010-15, up from 28% in the 2000-05. The average age of women delivering a baby is increasing. The 25-29 years' age group and the 30-34 years' age group is expected to contribute to higher share in live births, going forward, contributing to 37% and 19% of the live births, respectively, in 2020-25 and 40% and 23% of live births in 2025-30, respectively. With the increase in pregnancy age the demand for neonatal care is expected to increase as number of complications arising from pregnancies may witness a rise.

Growth drivers for maternity hospitals in India**Rise in working women population in urban areas:**

With the increase in working women population in urban areas the awareness and affordability increases. This has resulted in demand for private hospitals increasing along with chain of hospital brands.

Changing consumer behaviour away from traditional maternity practices:

Consumer behavioural changes has resulted in increase in institutionalised deliveries over the past decade. In the last five years, the percentage of institutionalised deliveries has increased from 66.6% in FY16 to 71% in FY21. This is due to younger population preferring better healthcare facilities compared to the traditional at home delivery techniques.

Rise in demand for healthcare chains:**Exhibit 15: Revenue of paediatric/maternity private chain**

| Players (₹ in crores) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | CAGR (FY16-20) |
|-----------------------------------|-------|-------|-------|-------|-------|-------|----------------|
| Motherhood | 54.1 | 56.1 | 73.4 | 183.8 | 284.9 | 290.1 | 51.5% |
| Rainbow | 233 | 321.3 | 401.8 | 542.8 | 719.4 | 650.1 | 32.5% |
| Cloudnine | 186.1 | 255.2 | 350.2 | 421.9 | 514.3 | 554.6 | 28.9% |
| Neonatal care and research (Ovum) | 16.5 | 24.1 | 29.7 | 37.3 | 45.6 | | 28.9% |
| Cocoon - lineage (Jaipur) | 11.9 | 14.2 | 14.7 | 9.8 | 13.6 | | 3.4% |

Source: RHP, ICICI Direct Research

The maternity and paediatric chains have witnessed strong growth of higher than 30% CAGR in FY16-20 due to increase in demand and higher penetration. The preference for hospital chains is expected to increase with higher penetration of larger brands

Investment Rationale

India's leading multi-speciality paediatric care providers

Rainbow is India's largest multi-specialty paediatric care providers (based on hospital beds, as of FY21), with a presence across various specialties such as neurology, nephrology, gastroenterology, oncology and cardiology. According to the Crisil Report, the paediatric market grew at a CAGR of 12% in FY16-20. Over the next five financial years, the paediatric market is expected to expand at 13% CAGR in FY20-26. Rainbow Hospitals follow a hub-and-spoke model in Hyderabad and Telangana with its Banjara Hills hospital being the hub and four spokes at four locations in Hyderabad, Telangana, namely Secunderabad, LB Nagar, Kondapur and Hydernagar. It is planning to increase the scale of its reach to patients through a robust digital ecosystem. In addition to that, Rainbow has built a comprehensive paediatric critical care programme and has consistently allocated approximately one-third of its operational beds at all of its hospitals to critical care.

Hub-and-spoke model providing synergies

At the hub hospital, Rainbow provides comprehensive outpatient and inpatient care with a focus on tertiary and quaternary care. At the spokes, the company provides secondary care in paediatric, obstetrics, gynaecology and emergency services. Under this model, the super-specialty doctors based at the hub hospital are able to reach out to the larger community and cover a larger catchment area. This model has enabled the company to evolve over the past two decades from a single secondary care hospital in Hyderabad, Telangana to six hospitals in the city and as an established provider of tertiary and quaternary care services at the hub hospitals.

Rainbow is implementing a similar hub-and-spoke model in Bengaluru, Karnataka as well. The hub in Bengaluru (located at Marathahalli), Karnataka is increasingly getting complex referrals from the spokes located at Bannerghatta Road and Hebbal. The company plans to further expand the network of spokes in and around Bengaluru, Karnataka. Rainbow also plans to replicate this model in Chennai, Tamil Nadu and New Delhi-NCR, where it has hub hospitals, by adding spokes in these cities. The company believes the hub and spoke model will enable it to provide comprehensive and accessible paediatric as well as perinatal services at these cities.

Ability to attract, train, retain high-calibre medical professionals

Rainbow Hospital follow a doctor engagement model whereby most of their core specialists work exclusively at the hospitals on a full-time retainer basis. This model ensures that most of the core specialists are available 24/7 on a roster basis across the hospitals, which is particularly important for children's emergency and neonatal and paediatric intensive care services.

A number of doctors in neonatal, paediatric intensive care, paediatric sub-specialties, obstetrics and gynaecology are trained or possess qualifications from the UK, US, Canada and Australia, which provides the company with a competitive advantage. Rainbow entered into retainership contracts with the newly hired doctors covering the initial two to three year periods, which provides them with stability and makes hospitals a desirable workplace. The company has successfully adopted the doctor engagement model across hospitals, which has led to a high degree of full-time doctor retention (at 81% for the period from April 1, 2019 to March 31, 2021).

Tertiary, quaternary paediatric services in existing hospitals

At the company's hub at Banjara Hills in Hyderabad, Telangana, Rainbow commenced providing paediatric quaternary care services in 2019. The company plans to build similar capabilities at the hospitals in Bengaluru, Karnataka, Chennai, Tamil Nadu and New Delhi-NCR. Further, Rainbow Children's Heart Institute is a 110-bed standalone paediatric cardiac centre that treats children's cardiac problems. Rainbow plans to develop similar cardiac capabilities in Bengaluru, Karnataka, Chennai, Tamil Nadu and New Delhi-NCR, by hiring reputed, experienced and skilled cardiac specialists in these cities.

Key Risk

Dependency on medical professionals

Performance and the execution of the business strategies depends substantially on the ability to attract, recruit and retain doctors in specialties such as paediatrics, obstetrics and gynaecology in regions relevant to business and growth plans. Rainbow competes with other healthcare service providers in recruiting and retaining doctors. Factors that doctors consider important before deciding where they will work include professional fees, incentives, reputation of the healthcare establishment, quality of the facilities, academic and research opportunities, and a sufficient number of patients and surgeries made available to them.

Revenues highly dependent on hospitals in Hyderabad, Bengaluru, certain specialties

A significant percentage of the patients are served by hospitals in Hyderabad, Telangana and Bengaluru, Karnataka. For FY19, FY20 and FY21, and 9MFY22, volumes at these hospitals accounted for 84.07%, 81.89%, 78.98% and 77.28%, respectively, of the aggregate inpatient and outpatient volumes across all the hospitals. Any material impact on revenues from the hospitals in Hyderabad, Telangana and Bengaluru, Karnataka or from the paediatrics secondary care services, could have a material adverse effect on Rainbow's business, financial condition, results of operations and cash flows.

Inability to maintain bed occupancy rates at sufficient levels

Factors affecting bed occupancy, many of which are beyond the control, include complexity of treatment, lengths of stay, brand recognition, reputability of doctors, the strength of Rainbow's referral network, the demographic characteristics of patients including their access to public health facilities, and changes in applicable government regulations. If the company fails to maintain or improve the bed occupancy rates while Rainbow Children's continue to make significant capital investments, the business, financial condition, cash flows, results of operations and prospects may be materially and adversely affected.

Intense competition from other healthcare service providers

Some of Rainbow's competitors are owned or operated by governmental bodies or by private not-for-profit entities supported by endowments and charitable contributions, which can avail tax benefits under various provisions and finance capital expenditures through endowments and charitable contributions. The company may also face competition from new market entrants. Rainbow seek to maintain and enhance its competitive position in each of its markets through various initiatives such as hiring and retaining quality medical professionals through offering lucrative compensation, and providing quality services at competitive rates. As a result, the company may experience lower profitability as it strives to compete with its competitors on all fronts. If Rainbow is unable to compete effectively with the competitors, the market share, business, financial condition, results of operations and cash flows could be materially and adversely affected.

Financial Summary

| Exhibit 16: Profit and loss statement | | ₹ crore | | | |
|---|--------------|--------------|--------------|--------------|--|
| Revenue (₹ crore) | FY19 | FY20 | FY21 | 9MFY22 | |
| Revenue from operations | 542.8 | 719.4 | 650.0 | 761.3 | |
| Other income | 8.4 | 10.3 | 10.3 | 12.8 | |
| Total revenue | 551.1 | 729.7 | 660.3 | 774.1 | |
| Raw Material Expenses | 80.2 | 105.3 | 103.3 | 161.0 | |
| Employee expense | 85.7 | 109.0 | 102.1 | 84.4 | |
| Other expenses | 228.3 | 308.1 | 281.9 | 259.2 | |
| Total Expenses | 394.3 | 522.4 | 487.2 | 504.6 | |
| Adjusted EBITDA | 148.5 | 197.0 | 162.8 | 256.7 | |
| Finance costs | 39.0 | 44.6 | 44.1 | 36.9 | |
| Depreciation and amortisation expense | 60.3 | 69.4 | 73.3 | 61.0 | |
| Profit before tax | 57.5 | 93.4 | 55.7 | 171.6 | |
| Total Tax | 12.9 | 38.0 | 16.1 | 45.2 | |
| Profit after tax before Minority interest | 44.6 | 55.3 | 39.6 | 126.4 | |
| Less: Share of Minority interest | 0.0 | -0.4 | -0.5 | 0.3 | |
| Profit after tax | 44.6 | 55.7 | 40.0 | 126.1 | |

Source: Company, ICICI Direct Research

| Exhibit 17: Cash flow statement | | ₹ crore | | | |
|---|---------------|---------------|--------------|---------------|--|
| Cash Flow (₹ crore) | FY19 | FY20 | FY21 | 9MFY22 | |
| PBT | 57.5 | 93.4 | 55.7 | 171.6 | |
| Operating profit before working capital changes | 151.4 | 202.9 | 166.4 | 260.4 | |
| Changes in working capital | -9.5 | -12.3 | 2.8 | -20.6 | |
| Income tax paid | -14.6 | -20.1 | -26.5 | -46.1 | |
| CF from operating activities | 127.2 | 170.4 | 142.7 | 193.7 | |
| (Purchase)/Sale of Fixed Assets | -85.6 | -74.4 | -75.9 | -37.1 | |
| Interest Received | 5.3 | 7.8 | 7.5 | 3.8 | |
| Investment in bank deposits | -31.3 | -28.3 | -4.5 | -67.0 | |
| Other Investing Activities | -5.4 | -22.1 | -10.0 | -61.7 | |
| CF from investing activities | -116.9 | -117.0 | -82.9 | -162.0 | |
| Proceeds from issue of share capital | 0.0 | 0.0 | 0.0 | 26.3 | |
| Adj. of Loan | 35.0 | 4.9 | -9.5 | -6.1 | |
| Interest Paid | -0.8 | -5.0 | -5.2 | -4.4 | |
| Dividends Paid | -5.6 | -16.7 | 0.0 | -9.2 | |
| Other Financial Activities | -37.3 | -35.0 | -46.2 | -36.7 | |
| CF from financing activities | -8.7 | -51.8 | -60.9 | -30.1 | |
| Net Cash Flow | 1.7 | 1.6 | -1.0 | 1.6 | |
| Opening Cash | 3.5 | 5.1 | 6.7 | 5.7 | |
| Closing Cash Flow | 5.1 | 6.7 | 5.7 | 7.3 | |
| FCF | 41.7 | 96.0 | 66.8 | 156.7 | |

Source: Company, ICICI Direct Research

| Exhibit 18: Balance Sheet | | ₹ crore | | | |
|--------------------------------|--------------|----------------|----------------|----------------|--|
| Balance Sheet (₹ crore) | FY19 | FY20 | FY21 | 9MFY22 | |
| Equity and liabilities | | | | | |
| Shareholders' funds | | | | | |
| Share capital | 54.9 | 54.9 | 54.9 | 105.0 | |
| Reserves and surplus | 317.2 | 350.5 | 391.5 | 485.3 | |
| Minority interest | 0.0 | 3.9 | 2.0 | 3.4 | |
| Non-current liabilities | | | | | |
| Long-term borrowings | 456.9 | 467.5 | 505.3 | 513.2 | |
| Other non-current liabilities | 5.6 | 12.4 | 5.5 | 5.7 | |
| Current liabilities | | | | | |
| Short-term borrowings | 8.4 | 22.7 | 13.2 | 20.6 | |
| Trade payables | 43.2 | 58.2 | 53.7 | 65.9 | |
| Other current liabilities | 40.1 | 49.1 | 55.2 | 40.7 | |
| Total | 926.4 | 1,019.2 | 1,081.3 | 1,239.8 | |
| Assets | | | | | |
| Non current assets | | | | | |
| Fixed assets | | | | | |
| Tangible assets | 695.2 | 696.3 | 767.8 | 812.6 | |
| Goodwill on consolidation | 3.0 | 3.0 | 3.0 | 3.0 | |
| Capital work in progress | 22.6 | 42.7 | 28.8 | 5.7 | |
| Intangible assets | 3.5 | 2.3 | 1.5 | 1.2 | |
| Non-current investments | 0.0 | 0.0 | 8.0 | 0.0 | |
| Deferred tax assets (net) | 22.0 | 2.5 | 7.3 | 11.5 | |
| Loans & Advances | 0.0 | 0.0 | 0.0 | 49.7 | |
| Other financial assets | 35.1 | 47.1 | 54.7 | 42.2 | |
| Other non-current assets | 12.0 | 22.7 | 13.1 | 6.8 | |
| Current assets | | | | | |
| Inventories | 7.0 | 16.0 | 10.1 | 12.6 | |
| Trade receivables | 35.0 | 44.0 | 44.0 | 40.1 | |
| Investments | 3.2 | 9.9 | 10.3 | 62.3 | |
| Cash and bank balances | 76.5 | 97.2 | 94.7 | 163.1 | |
| Loans & Advances | 6.9 | 24.1 | 27.8 | 0.0 | |
| Other financial assets | 0.0 | 0.0 | 0.0 | 13.0 | |
| Other current assets | 4.3 | 11.4 | 10.3 | 16.1 | |
| Total | 926.4 | 1,019.2 | 1,081.3 | 1,239.8 | |

Source: Company, ICICI Direct Research

| Exhibit 19: Key ratios | | | | | |
|-----------------------------|-------|------|-------|--------|--|
| Ratio Sheet | FY19 | FY20 | FY21 | 9MFY22 | |
| Per share data (₹) | | | | | |
| Diluted EPS | 4.4 | 5.5 | 3.9 | 12.4 | |
| Cash EPS | 10.3 | 12.3 | 11.2 | 18.4 | |
| BV per share | 36.7 | 40.3 | 44.2 | 58.5 | |
| Cash Per Share | 7.5 | 9.6 | 9.3 | 16.1 | |
| Operating Ratios (%) | | | | | |
| Gross Profit Margins | 85.2 | 85.4 | 84.1 | 78.9 | |
| EBITDA Margins | 27.4 | 27.4 | 25.0 | 33.7 | |
| PAT Margins | 8.2 | 7.7 | 6.2 | 16.6 | |
| Inventory days | 4.7 | 8.1 | 5.7 | 6.0 | |
| Debtor days | 23.5 | 22.3 | 24.7 | 19.2 | |
| Creditor days | 28.6 | 29.1 | 29.7 | 31.1 | |
| EBITDA Conversion Rate | 85.7 | 86.5 | 87.6 | 75.5 | |
| Return Ratios (%) | | | | | |
| RoE | 12.0 | 13.6 | 8.9 | 21.2 | |
| RoCE | 10.5 | 14.2 | 9.3 | 17.4 | |
| RoIC | 11.6 | 15.9 | 10.3 | 20.3 | |
| Valuation Ratios (x) | | | | | |
| EV / Sales | 10.9 | 8.2 | 9.1 | 7.7 | |
| EV/EBITDA | 39.7 | 29.9 | 36.4 | 22.9 | |
| Market Cap / Sales | 10.1 | 7.6 | 8.5 | 7.2 | |
| P/E | 123.4 | 98.7 | 137.5 | 43.6 | |
| Price to Book Value | 14.8 | 13.4 | 12.3 | 9.3 | |
| Solvency Ratios | | | | | |
| Debt / EBITDA | 3.1 | 2.5 | 3.2 | 2.1 | |
| Debt / Equity | 1.3 | 1.2 | 1.2 | 0.9 | |
| Net Debt/ Equity | 1.0 | 1.0 | 0.9 | 0.6 | |
| Current Ratio | 1.4 | 1.6 | 1.6 | 2.4 | |
| Quick Ratio | 1.4 | 1.4 | 1.5 | 2.3 | |
| Asset Turnover | 0.7 | 1.0 | 0.8 | 0.9 | |

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to companies that are coming out with their initial public offerings and then categorises them as Subscribe, Subscribe for the long term and Avoid.

Subscribe: Apply for the IPO

Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Siddhant Khandekar, Inter CA, Raunak Thakur, PGDM, Kush Mehta, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.