

**Rating: Subscribe for Long Term**

**Issue Offer**

**Fresh Issue of equity shares worth INR 2,800 Mn and an Offer for Sale of 24,000,900 Equity shares.**

**Issue Summary**

Price Band (INR)	516-542
Face Value (INR)	10
Implied Market Cap (INR Mn)	55,010
Market Lot	27
Issue Opens on	April 27th, 2022
Issue Close on	April 29th, 2022
No. of share pre-issue	96,334,008
No. of share post issue	101,500,060
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	50
NIB Portion	15
Retail Portion	35

**Book Running Lead Managers**

Kotak Mahindra Capital  
J.P. Morgan  
IIFL Securities Ltd.

**Registrar**

Kfin Technologies Pvt. Ltd.

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters & Promoter Group	62.19%	49.83%
Public	37.81%	50.17%

**Objects of the issue**

- Early redemption of NCDs issued by the company
- Capital expenditure towards setting up of new hospitals and purchase of medical equipments for new hospitals
- General corporate purposes

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**Company Profile:**

Rainbow Children's Medicare Ltd. is a leading multi-specialty pediatric, obstetrics and gynecology hospital chain in India. It operates 14 hospitals and three clinics in six cities, with a total bed capacity of 1,500 beds, as of September 30, 2021. Its core specialties are pediatrics, which includes newborn and pediatric intensive care, pediatric multi-specialty services, pediatric quaternary care (including multi organ transplants); and obstetrics and gynecology, which includes normal and complex obstetric care, multidisciplinary fetal care, perinatal genetic and fertility care. Five of its hospitals are accredited by National Accreditation Board for Hospitals & Healthcare Providers (NABH) and three are certified by EDGE (Excellence in Design for Greater Efficiencies). It follows a hub-and-spoke model in Hyderabad, with Banjara Hills hospital (comprising 250 beds) being the hub and four spokes at four locations in Hyderabad, namely Secunderabad, LB Nagar, Kondapur and Hydernagar. As of September 30, 2021, the company had 602 full time doctors and 1,686 part time/visiting doctors.

**Investment Rationale:**

**Expanding hospital facilities will facilitate future growth:** Rainbow Children's Medicare will utilize about INR 1,000 Mn from the IPO (Initial Public Offering) proceed towards setting up new hospitals and expanding the hospital network in India. It will deploy additional INR 700 Mn from the IPO proceeds towards purchase of medical equipments for new hospitals. These will include critical care equipment, surgical equipment, radiology equipment and medical furniture. The Board of Directors have already approved the amount for capital expenditure. The company has received quotations from various vendors for the proposed capex for the purchase of equipments.

**Deleveraging to strengthen balance sheet:** The company has issued non-convertible debentures (NCD) and the total outstanding NCDs aggregate to INR 400 Mn, as of September 30, 2021. It is looking to redeem the NCDs early to the tune of INR 400 Mn. This will help the company to reduce its outstanding indebtedness and debt servicing cost. Post the improvement of its leverage ratio, the company can benefit by raising debt at a lower rate of interest. Overall, the finance cost of the company will reduce and will directly support the bottom-line.

**Operationally efficient through hub and spoke model:** It follows a hub-and-spoke model in Hyderabad, with Banjara Hills Hospital being the hub and four spokes at four locations in Hyderabad, namely Secunderabad, LB Nagar, Kondapur and Hydernagar. At the hub hospital, it provides comprehensive outpatient and inpatient care with a focus on tertiary and quaternary care, and at the spokes, it provides secondary care in pediatrics, obstetrics and gynecology and emergency services. Under this model, the super-specialty doctors based at the hub hospital are able to reach out to a larger community and cover a larger catchment area. This model has enabled the company to evolve from a single secondary care hospital in Hyderabad to six hospitals in the city and an established provider of tertiary and quaternary care services at the hub hospitals.

**Valuation and Outlook:** At the upper price band of INR 542 per share, the company is valued at a TTM P/E multiple of 52x based on TTM EPS of INR 10.4. The hospital network is profitable and revenues from operations have surpassed the pre-Covid levels. The top-line has increased at a CAGR of 9.5% between FY19 and FY21. The future growth will be driven by facility expansion through new hospitals, better operational efficiency and overall buoyancy in the hospital sector post the pandemic. Also, deleveraging will further strengthen the balance sheet to support long term growth of the company. Long term investors can subscribe to the issue of Rainbow Children's Medicare Ltd.

## About the Business

- Based in South India, Rainbow Children's Medicare Ltd. is a major hospital network, mostly dedicated to pediatric care.
- It has a total of 14 hospitals and three clinics. These include 1 hospital and 1 clinic at Visakhapatnam, 1 hospital and 1 clinic at Vijayawada, 6 hospitals and 1 clinic at Hyderabad, 3 hospitals at Bengaluru and 1 hospital at Chennai.
- Its specialties are classified into 2 categories:
  - *Pediatrics*, including newborn and pediatric intensive care, pediatric multi-specialty care services and pediatric quaternary care, where it also performs multi-organ transplants in children.
  - *Obstetrics and gynecology*, including normal and complex obstetric care, multi-disciplinary fetal care and perinatal genetic care, as well as fertility treatment, where it offers a wide range of assisted reproduction treatments.

## Key Risks

- Although, the company has hospital facilities in about 5 cities, the major revenues are concentrated in Hyderabad and Bengaluru. Volumes at the hospitals located in these two cities contributed about 77.7% of the overall volumes for six months ending September 2021. Any material impact in these hospital facilities can affect the financial performance of the company.
- The different specialties of the hospital chain include secondary pediatric care, tertiary pediatric care, quaternary pediatric care and women care. Out of these, the secondary pediatric care accounts for the largest portion of the revenues. Slowdown in this segment can materially affect the financial performance of the company.
- The hospital industry is part of the service sector and largely depends on the quality of workforce and attrition rate. The operations of Rainbow Childrens Medicare depend upon its doctors and the nursing staff. Higher attrition rate or unable to retain key talent can negatively affect the operational performance of the hospital network.

## Peer Comparison:

Company	Revenue (INR Mn, FY21)	Face Value (INR)	EPS (INR, FY21)	P/E	RoNW (FY21)	NAV (INR, FY21)
Apollo Hospital Enterprise Ltd.	106,050	5	11	435	8.9%	48.8
Fortis Healthcare Ltd.	40,767	10	-1	NA	-0.8%	81.1
Narayana Hrudalaya Ltd.	26,105	10	-1	NA	-1.5%	54.8
Max Healthcare Ltd.	26,194	10	-2	NA	-2.5%	58.4
Krishna Institute of Medical Sciences Ltd.	13,401	10	26	51	23.7%	111.3

## Management

Key Person	Description
<b>Dr. Ramesh Kancharla</b>	He is the Chairman and Managing Director of the company. He holds a Bachelor of Medicine and Bachelor of Surgery (MBBS) from Sri Venkateswara University and a Doctor in Medicine (MD) in paediatrics from Mangalore University. He has over 23 years of experience with Rainbow Children's Medicare Ltd.
<b>R Gowrisankar</b>	He is the Chief Financial Officer of the Company. He has been associated with the company for over 7 years and in the current position since June 14, 2019. He has over 21 years of professional experience and has been previously associated with Apollo Hospitals Enterprise Ltd., MNE Technologies Pvt. Ltd., Takshasila Healthcare and Research Service Private Ltd., Manipal Health Systems Pvt. Ltd., Manipal Health Enterprises Pvt. Ltd., Vanpic Ports Pvt. Ltd., Yashomati Hospitals Pvt. Ltd. and Yashoda HealthCare Services Pvt. Ltd.
<b>Mahesh Madduri</b>	He is the Head of Strategy of the company. He has been associated with the company since September 1, 2021. He holds a MS Industrial Administration degree from Carnegie Mellon University, Pittsburgh Pennsylvania. He is a member of the Institute of Chartered Accountants of India. He has been previously associated with the Industrial Credit & Investment Corporation of India Limited (ICICI) and the merchant banking division of Morgan Stanley (Private Equity).
<b>Dr. Rohit Manipl Bhojraj</b>	He is the Group – Chief Operating Officer of the company. He is associated with the company since March 28, 2020. He was previously associated with Infosys Technologies Limited, Novartis Healthcare Private Limited and Genpact LLC. He holds a Bachelor of Medicine and Bachelor of Surgery ("MBBS") from the University of Delhi. He holds a post-graduate diploma in management from the Indian Institute of Management, Ahmedabad. He has over 16 years of experience in diversified service industries including medical, pharmaceuticals and IT industries.

Source: RHP, Aриhant Capital Research

## Financial Performance:

Consolidated Income Statement (INR Mn)	2019	2020	2021
Revenue from Operations	5428	7194	6500
Other Income	84	103	103
<b>Total Revenue</b>	<b>5511</b>	<b>7297</b>	<b>6603</b>
Expenses:			
Employee Benefit	857	1090	1021
Finance Costs	390	446	441
Depreciation and Amortisation	603	694	733
Medical Consumables/Pharmacy	802	1053	1033
Other Expenses	2283	3081	2819
<b>Total Expenses</b>	<b>4936</b>	<b>6364</b>	<b>6046</b>
<b>Profit Before Exceptional Items and Tax</b>	<b>575</b>	<b>934</b>	<b>557</b>
<b>Total Tax Expense</b>	<b>129</b>	<b>380</b>	<b>161</b>
<b>Non-controlling interests</b>	<b>0</b>	<b>-4</b>	<b>-5</b>
<b>Profit After Tax</b>	<b>446</b>	<b>557</b>	<b>400</b>
<b>Basic EPS</b>	<b>4.83</b>	<b>5.98</b>	<b>4.36</b>
<b>Diluted EPS</b>	<b>4.74</b>	<b>5.92</b>	<b>4.25</b>

Consolidated Cash Flow Statement (INR Mn)	2019	2020	2021
Cash Flow From Operations	1272	1704	1427
Cash Flow From Investing Activities	-1169	-1170	-829
Cash Flow From Financing Activities	-87	-518	-609
<b>Net Cash Generated during the period</b>	<b>17</b>	<b>16</b>	<b>-10</b>
<b>Cash and Cash Equivalents at the beginning of the period</b>	<b>35</b>	<b>51</b>	<b>67</b>
<b>Cash and Cash Equivalents at the end of the period</b>	<b>51</b>	<b>67</b>	<b>57</b>

Consolidated Balance Sheet (INR Mn)	2019	2020	2021
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	3614	3874	4277
Right-of-use Asset	3565	3516	3689
Goodwill	30	30	30
Other Intangible assets	35	23	15
Financial Assets	351	471	627
Income Tax Assets	40	22	45
Deferred Tax Assets	180	3	28
Other Non Current Assets	120	227	131
<b>Total Non- Current Assets</b>	<b>7935</b>	<b>8166</b>	<b>8842</b>
<b>Current Assets</b>			
Financial Assets excluding cash and cash equivalents	1234	1845	1811
Cash and Cash Equivalents	51	67	57
Other Current Assets	43	114	103
<b>Total Current Assets</b>	<b>1329</b>	<b>2026</b>	<b>1971</b>
<b>TOTAL ASSETS</b>	<b>9264</b>	<b>10192</b>	<b>10813</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Equity Share Capital	549	549	549
Other Equity	3172	3505	3915
Non-controlling interest	0	39	20
<b>Total Equity</b>	<b>3722</b>	<b>4093</b>	<b>4484</b>
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Financial Liabilities	4569	4675	5053
Provisions	56	71	55
Deferred tax liabilities (net)	0	53	0
<b>Total Non- Current Liabilities</b>	<b>4625</b>	<b>4800</b>	<b>5108</b>
<b>Current Liabilities</b>			
Financial liabilities	768	1153	1064
Other Current Liabilities	90	102	94
Provisions	8	8	25
Income Tax Liabilities	52	36	38
<b>Total Current Liabilities</b>	<b>917</b>	<b>1300</b>	<b>1221</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>9264</b>	<b>10192</b>	<b>10813</b>

Source: RHP, Arianth Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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