

IPO Note: Rainbow Children's Medicare Ltd.

Industry: Healthcare
Reco: Subscribe
Date: April 26, 2022

Issue Snapshot		Issue Break up	
Company Name	Rainbow Children's Medicare Ltd.	QIB ex Anchor	20% 5,773,390
Issue Opens	April 27, 2022 to April 29, 2022	Anchor Investor	30% 8,660,085
Price Band	Rs. 516 to Rs. 542	HNI	15% 4,330,043
Bid Lot	27 Equity Shares and in multiples thereof.	RII	35% 10,103,433
The Offer	Public issue of 29,166,952 Equity shares of Face value Rs. 10 each, (Comprising of fresh issue of 5,166,052 Equity Shares* (Rs. 280 cr.) and Offer for Sale of 24,000,900 Equity Shares (Rs. 1300.8 cr.*) by Selling Shareholder).	Total Public	100% 28,866,952
		Employee Reservation	300,000
Issue Size	Rs. 1518.5 – 1580.8 Crore	Total	29,166,952
IPO Process	100% Book Building	Equity Share Pre Issue (Nos. Cr.)	9.6
Face Value	Rs. 10.00	Fresh Share (Nos. Cr.)	0.5
Exchanges	NSE & BSE	OFS Share (Nos. Cr.)	2.4
BRLM	Kotak Mahindra Capital Company Ltd, Kotak Mahindra Capital Company Ltd and IIFL Securities Ltd	Equity Share Post Issue (Nos. Cr.)	10.2
Registrar	KFin Technologies Ltd	Market Cap (Rs. Cr.)	5,501.3
		Equity Dilution	5.1%
		Stake Sale by OFS	23.6%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 5,354,630 equity shares by Dr. Ramesh Kancharla, up to 1,926,690 equity shares by Dr. Dinesh Kumar Chirla, up to 1,445,020 equity shares by Dr. Adarsh Kancharla, up to 9,632,876 equity shares by British International Investment PLC, up to 5,033,236 equity shares by CDC India, up to 608,448 equity shares by Padma Kancharla)

Fresh Issue

- Early redemption of NCDs issued by the Company to CDC Emerging Markets Ltd, one of the Group Companies, in full (Rs. 40 cr.);
- Capital expenditure towards setting up of new hospitals and purchase of medical equipment for new hospitals (Rs170cr.); and
- General corporate purposes.

Company Highlights

- Rainbow Children's Medicare Ltd (RCML) is a leading multi-specialty pediatric and obstetrics and gynecology hospital chain in India, operating 14 hospitals and three clinics in six cities, with a total bed capacity of 1,500 beds, as of December 31, 2021. It had the highest number of hospital beds amongst comparable players in the maternity and pediatric healthcare delivery sector, as of March 31, 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, multi-disciplinary fetal care, perinatal genetic and fertility care.
- RCML's ability to recruit and retain high caliber medical professionals has been integral to the success of the business. It follows a doctor engagement model whereby most of its core specialists work exclusively at its hospitals on a full-time retainer basis. This model ensures that most of the core specialists are available 24/7 on a roster basis at its hospitals, which is particularly important for children's emergency, neonatal and pediatric intensive care services. As of December 31, 2021, RCML had 641 full-time doctors and 1,947-part time/visiting doctors.
- RCML has expanded its hospital network and increased its bed capacity from 1,162 beds as of March 31, 2019 to 1,500 beds as of December 31, 2021. Over the same period, it increased the number of hospitals from 10 to 14. It has approached its network expansion with financial prudence and has been disciplined when making financial decisions for capital investments.
- The Hospital follow a hub-and-spoke model in Hyderabad, Telangana with its 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 its hub hospital, it provides comprehensive outpatient and inpatient care with a focus on tertiary and quaternary care and, at its spokes, it provides secondary care in pediatric, obstetrics and gynecology and emergency services. This model has strengthened its market position in and around Hyderabad, Telangana providing with synergies through referrals for tertiary and quaternary care to its hub arising from the spoke hospitals.

- RCML also plans to increase the scale of its reach to patients through a robust digital ecosystem. In the period from April 1, 2020 to March 31, 2021, driven in part by the movement restrictions arising out of the COVID-19 pandemic, it conducted over 125,000 outpatient video consultations through its video consultation platform. There is potential to establish a hybrid model of healthcare delivery, which allows RCML to provide outpatient consultations through virtual means and subsequent inpatient admissions, if needed, at its network hospitals. It is in the process of building a digital healthcare delivery solution that enables healthcare delivery irrespective of geography.

View

- Based on RCML's 22 years of experience in operating pediatric hospitals providing tertiary newborn, pediatric intensive and pediatric sub specialty care, there is great opportunity for the Hospital to expand its quaternary care operations. At its hub at Banjara Hills in Hyderabad, Telangana, it commenced providing pediatric quaternary care services in 2019. It plans to build similar capabilities in its hospitals in Bengaluru, Karnataka, Chennai, Tamil Nadu and New Delhi- NCR. Further, Rainbow Children's Heart Institute is a 110-bed standalone pediatric cardiac center that treats children's cardiac problems. It 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. It also plans to invest in specialized medical infrastructure such as cath labs, pediatric cardiac OT and echocardiogram machines, which will enhance its capabilities in treating cardiac patients.
- RCML has successfully created a hub and spoke model in Hyderabad, Telangana through its network of a hub hospital in Banjara Hills, Hyderabad, Telangana supported by four spokes spread across the city. This model provides patients access to multidisciplinary level 4 neonatal and pediatric intensive care and pediatric subspecialty care at the hub hospital while at the same time providing access to 24/7 emergency, pediatric secondary and tertiary care and full spectrum of obstetrics and gynecology closer to home at the spokes. The model is financially optimal, as spokes are set up at lower cost. It plans to replicate this model across key cities and regions in the country.
- RCML will continue to explore means to enhance performance efficiencies to reduce the cost of healthcare delivery so as to make it affordable for patients, and also contribute to the growth in its profitability. In this regard, it seeks to streamline its procurement processes by focusing on (a) centralized and standardized procurement of medical equipment, consumables and pharmaceuticals; (b) leveraging the scale of its operations for more economical sourcing; and (c) using technology to have real time visibility, assess supplier performance and access other relevant information. It constantly strives to increase the capacity utilization at all its hospitals by increasing its day care admissions. It also plans to further reduce the length of hospital stays as its surgical work is trending towards minimally invasive surgeries, which will have a beneficial impact on its key operational parameters.
- RCML's digital strategy is focused on enabling to provide customized healthcare services for its target customers as well as to digitize processes to significantly improve the in-hospital customer experience. Its "Rainbow Children's Hospital" mobile application is one of the core aspects of digital strategy. The application enables patients to book appointments, make payments, order drugs for home delivery, download investigation reports and receive alerts on essential services. It is in the process of implementing an AI-enabled content management engine to support the application, which will be able to process large amounts of patient data to provide with insight into patient needs.
- On financial front, during FY19-21, Campus revenue and EBITDA grew at a CAGR of 9.4% and 4.7%, respectively, (impacted by covid). Average EBITDA margins is ~27%, while PAT margins is ~7.5%. The RoE/RoCE were 19.3%/25.3%. After repayment of debt from IPO proceedings, the company will be net debt free. 9MFY22 revenue stood at Rs761cr and EBITDA margin was 33.7%.
- In terms of the valuations, on the higher price band, RCML demands a P/E multiple of 32.6x based on 9MFY22 post issue fully diluted EPS and EV/EBITDA multiple of 25.3x based on 9MFY22 post issue fully diluted EBITDA. The industry P/E and EV/EBITDA is ~50x and ~30x which indicates that the IPO is suitably priced.
- Rainbow has a presence in the maternity and pediatric healthcare market in India and there is a growing preference for speciality maternity hospitals. Private maternity healthcare market grew at 4-5% CAGR between FY216-FY20 from Rs173 billion to Rs 208 billion. The private maternity care market is expected to grow at CAGR of 11-12% between FY21-FY26 to Rs 261 billion. Given the growth in healthcare segment, dominant presence in southern India, strong financials, expansion to new services and diversifying to new areas, will drive the company's performance going forward. Hence, it is recommended to "SUBSCRIBE" the issue from the long term perspective.

Revenue from Operations

	FY19	FY20	FY21	9MFY21	9MFY22
Income from medical and healthcare services	532.62	707.21	639.99	479.65	753.75
- Revenue from hospital services	456.56	596.93	538.01	403.03	669.74
- Revenue from pharmacy Sales	69.37	94.02	85.85	64.44	70.66
- Revenue from Medical Service fee	6.69	16.26	16.13	12.19	13.34
Other Operating income	10.17	12.19	10.06	6.52	7.57
Total Revenue from Operations	542.79	719.39	650.05	486.17	761.31

Key Financial and Operational Parameters

	FY19	FY20	FY21	9MFY22
Key Performance Indigator				
Bed capacity	1,162	1,296	1,500	1,475
Operational beds	931	1,001	1,150	1,132
Occupancy rate (%)	54.13%	56.27%	46.18%	34.23%
Inpatient volume	53,422	66,871	51,075	51,165
Outpatient volume	787,345	941,049	615,438	624,111
Number of full-time doctors	498	596	641	593
Number of nurses	1,401	1,485	1,586	1,169
ARPOB (₹)	9,744,124	10,715,405	12,636,661	14,925,896
ARPOB/Day (₹ per day)	26,696	29,277	45,951	40,893
ALOS (days)	3.2	3.05	2.85	2.57
Basic EPS (₹)	4.83	5.98	13.39	4.36
RoE	11.98%	13.52%	21.29%	8.82%
RoCE	11.68%	16.32%	22.06%	10.48%

Vintage analysis

Mature Hospitals

Bed Capacity	1,027	1,027	1,052	1,027
Operational Beds	819	819	837	819
Occupancy Rate	55.89%	60.84%	50.15%	37.13%
ALOS	3.17	2.93	2.69	2.45
Inpatient Volume	52,753	62,263	42,755	45,380
Outpatient Volume	749,189	862,554	518,165	545,213

New Hospitals

Bed Capacity	135	269	448	448
Operational Beds	112	182	313	313
Occupancy Rate	23.23%	34.39%	35.61%	24.10%
ALOS	5.91	4.67	3.68	3.56
Inpatient Volume	669	4,608	8,320	5,785
Outpatient Volume	38,156	78,495	97,273	78,898

Financial Statement

(In Rs. Cr)	FY19	FY20	FY21	9MFY21	9MFY22
Share Capital	54.9	54.9	54.9	54.9	105.0
Net Worth	372.2	409.3	448.4	448.2	593.7
Long Term Borrowings	49.7	45.8	40.5	40.5	27.3
Other Long Term Liabilities	412.8	434.2	470.3	470.5	491.6
Short-term borrowings	2.9	11.9	7.4	6.5	13.4
Other Current Liabilities	88.8	118.1	114.6	110.5	113.8
Fixed Assets	724.4	744.3	801.1	795.5	822.4
Non Current Assets	790.0	72.4	83.1	77.9	110.2
Current Assets	132.9	202.6	197.1	202.8	307.1
Total Assets	926.4	1019.2	1081.3	1076.2	1239.8
Revenue from Operations	542.8	719.4	650.0	486.2	761.3
Revenue Growth (%)		32.5	(9.6)		56.6
EBITDA	148.5	197.0	162.8	130.5	256.7
EBITDA Margin (%)	27.4	27.4	25.0	26.9	33.7
Net Profit	44.6	55.3	39.6	38.5	126.4
Net Profit Margin (%)	8.2	7.7	6.1	7.9	16.6
Earnings Per Share (Rs.)	4.7	5.9	4.3	4.1	13.1
Return on Networth (%)	12.0	13.7	8.9	8.7	21.5
Net Asset Value per Share (Rs.)	40.5	44.6	48.8	48.8	61.6

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21	9MFY21	9MFY22
Cash flow from Operations Activities	127.2	170.4	142.7	91.0	193.7
Cash flow from Investing Activities	(116.9)	(117.0)	(82.9)	(44.9)	(162.0)
Cash flow from Financing Activities	(8.7)	(51.8)	(60.9)	(47.4)	(30.1)
Net increase/(decrease) in cash and cash equivalents	1.7	1.6	(1.0)	(1.3)	1.6
Cash and cash equivalents at the beginning of the year	3.5	5.1	6.7	6.7	5.7
Cash and cash equivalents at the end of the year	5.1	6.7	5.7	5.4	7.3

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Rainbow Children's Medicare Ltd.	650.0	25.0	0.0	25.3	19.3	32.6	6.3	25.3	5.4	5501.3
Apollo Hospitals Enterprise Ltd.	10560.0	11.2	0.6	9.3	3.4	60.9	12.5	32.4	5.0	69228.0
Max Healthcare Institute Ltd.	2504.7	20.7	0.2	2.2	-2.8	71.3	6.4	38.7	10.5	39832.6
Fortis Healthcare Ltd.	4030.1	11.2	0.2	2.1	-1.6	39.0	3.3	20.1	3.7	20678.3
Narayana Hrudayalaya Ltd.	2582.3	8.4	0.6	1.8	-0.7	42.1	10.2	22.7	4.0	14420.7
Krishna Institute of Medical Sciences Ltd	1329.9	29.0	0.3	30.8	28.1	54.3	8.4	27.5	8.2	10957.0

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