



SMC Ranking

★ ★ ★ (2.5/5)

Issue Highlights

Total Issue (Shares) - Offer for sale	24,000,900
Total Issue (Shares) - Fresh Issue	5,166,052
Net Offer to the Public	29,166,952
Issue Size (Rs. Cr.)	1505-1581
Price Band (Rs.)	516-542
Offer Date	27-Apr-22
Close Date	29-Apr-22
Face Value	10
Lot Size	27 Per Equity Share

Issue Composition

	In shares
Total Issue for Sale	29,166,952
QIB	14,583,476
NIB	4,375,043
Retail	10,208,433

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	62.19%	49.83%
QIB	37.81%	35.80%
NIB	0.00%	4.31%
Retail	0.00%	10.06%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- The Early redemption of NCDs issued by the Company, in full.
- Capital expenditure towards setting up of new hospitals and purchase of medical equipment for such new hospitals.
- General corporate purposes.

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- J.P. Morgan India Private Limited
- IIFL Securities Limited

Name of the registrar

- KFin Technologies Limited

Rainbow Children's Medicare Limited operates a multi-speciality pediatric, obstetrics and gynaecology hospital chain in India. The company offers a wide range of services such as newborn and pediatric intensive care, pediatric multi-speciality services, pediatric quaternary care, obstetrics and gynaecology, which includes normal and complex obstetric care, and multidisciplinary fetal care, perinatal genetic and fertility care. Rainbow Children's Medicare operates 14 hospitals and three clinics in six cities, with a total bed capacity of 1,500 beds, as of September 30, 2021. In 1999, the company started its first pediatric speciality hospital in Hyderabad. Rainbow Children's Medicare Limited operates on a full-time doctor model ensuring that most of the core specialists are available 24/7 which is particularly important for children's emergency, neonatal and pediatric intensive care services. As of September 30, 2021, the company had 602 full-time doctors and 1,686 part-time/visiting doctors.

Competitive Strengths

Ability to conceptualize, create and operate specialized children's hospitals: The management believes that its specialization in pediatric care and the ability to conceptualize, create and operate children's hospitals are critical to its success. Its children's hospitals are made vibrant and visually appealing, with bright and congenial interior decoration. Further, a children's hospital requires focus on psychological and emotional care, which is different from adult hospitals, and the hospital keeps this understanding at the forefront while treating children.

Leading pediatric multi-specialty healthcare chain with strong clinical expertise in managing complex diseases: Rainbow Children's Medicare Limited is one of India's largest multi-specialty pediatric care providers (based on hospital beds, as of March 31, 2021), with a presence across various specialties such as neurology, nephrology, gastroenterology, oncology and cardiology. The management believes that its leadership position in pediatrics, especially in relation to complex diseases, provides us with a significant competitive advantage.

Comprehensive perinatal care provider, with synergies between pediatric and obstetrics and gynecology services: Its abilities to offer integrated pediatric, along with its obstetric and gynecologic services, enables it to provide very effective and cost-efficient one-stop healthcare solutions to families. The management believes this is largely attributable to the synergies between its pediatric care and its obstetrics and gynecology services.

Hub-and-spoke model that provides synergies and ensures better care and access for patients: The company has successfully executed a hub-

and-spoke model at Hyderabad, Telangana with its Banjara Hills hospital (comprising 250 beds) being the hub that is complemented by four spokes at four locations in Hyderabad, Telangana namely Secunderabad, LB Nagar, Kondapur and Hydernagar. Under this model, its super-specialty doctors based at its hub hospital are able to reach out to the larger community and cover a larger catchment area. This model has enabled it 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 its hub hospitals. Rainbow Children's Medicare Limited plans to increase capacity at both these locations by adding spokes. It 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. It believes the hub and spoke model will enable it to provide comprehensive and accessible pediatric as well as perinatal services at these cities

Proven ability to attract, train and retain high-caliber medical professionals: As of December 31, 2021, it had 641 full-time doctors and 1,947 part time/visiting doctors. It believes that its full-time doctor model along with a strong middle grade doctor pool ensures seamless healthcare delivery and has resulted in a high degree of patient satisfaction. A number of its doctors in neonatal, pediatric intensive care, pediatric sub-specialties, obstetrics and gynecology are trained or possess qualifications from the UK, US, Canada and Australia, which provides it with a competitive advantage. Rainbow Children's Medicare Limited successfully adopted the doctor engagement model across its 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).

Strategy

Strengthen tertiary and quaternary pediatric services in its existing hospitals: At Rainbow Children's Medicare Limited hub at Banjara Hills in Hyderabad, Telangana, it commenced providing pediatric quaternary care services in 2019. Rainbow Children's Medicare Limited 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. The management intends to increase the scope of the NAPE program across all its network hospitals, with a view to gaining further referrals. It also regularly conducts "outreach clinics" where its multispecialty pediatric doctors visit these areas and provide outpatient clinic services.

Further to grow comprehensive perinatal services offered under "Birthright by Rainbow": Rainbow Children's Medicare Limited plans to increase its focus on training and increase its intake of DNB and fellowship programs in obstetrics and fetal medicine. This would increase its pool of middle grade doctors specializing in obstetrics and gynecology. It further plans to expand its service offering by introducing

concepts such as trained midwifery in its hospitals.

To grow presence through hub and spoke networks across key geographic clusters and new locations: Rainbow Children's Medicare Limited 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 management of the hospital believes that 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.

Initiatives to drive performance efficiencies: Rainbow Children's Medicare Limited 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, the hospital 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. The hospital constantly strives to increase the capacity utilization at all its hospitals by increasing its day care admissions. Rainbow Children's Medicare Limited also plans to further reduce the length of hospital stays as its surgical work is trending towards minimally invasive surgeries, which it believes will have a beneficial impact on its key operational parameters.

Digital healthcare initiatives to address patient convenience, operational efficiencies and expand reach: The digital strategy is focused on enabling it to provide customized healthcare services for its target customers as well as to digitize processes to significantly improve the in-hospital customer experience. As Rainbow Children's Medicare Limited operates in children and women care, its customers include young independent professionals who are technology savvy and it believes it has the opportunity to build a deep lasting relationship with such customers spanning from conception to adolescence using digital initiatives. Its "Rainbow Children's Hospital" mobile application is one of the core aspects of its digital strategy. It also plans to increase the scale of its reach to patients through its digital ecosystem.

Risk factors

- It is dependent on medical professionals.
- Revenues are highly dependent on its hospitals in Hyderabad and Bengaluru.
- The business depends on the strength of its brand and reputation.
- It faces intense competition from other healthcare service providers
- Its hub-and-spoke model of provision of healthcare services may not be successful.

Peer comparison

Company Name	Net Sales	PAT	EPS	P/E	P/BV	B/V	FV	CMP	MCAP
Apollo Hospitals	13984.16	1133.32	60.57	80.63	13.26	368.39	5	4883.75	70220.83
Max Healthcare	3794.52	551.01	5.76	73.12	6.85	61.44	10	421.15	40836.15
Fortis Health.	5591.94	530.32	3.35	83.15	3.44	80.97	10	278.55	21029.36
Krishna Institu.	1637.03	309.83	38.71	35.68	9.02	153.16	10	1381.05	11052.24
Narayana Hrudaya	3597.47	341.02	16.69	42.44	11.13	63.62	10	708.40	14476.92
Rainbow Children's Medicare Ltd**	1015.08	168.55	32.64	32.64	6.01	90.23	10	542.00	5501.30

*Peer comparison - TTM

** Financials are annualised FY22

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.542, the stock is priced at pre issue P/E of 30.98x on an estimated annualised FY22 EPS of Rs.17.50. Post issue, the stock is priced at a P/E of 32.64x on its EPS of Rs.16.61. Looking at the P/B ratio at Rs.542, pre issue, book value of Rs. 61.63 of P/Bvx 8.79x. Post issue, book value of Rs.90.23 of P/Bvx 6.01x.

Considering the P/E valuation, on the upper end of the price band of Rs.516, the stock is priced at pre issue P/E of 29.49x on an estimated annualised FY22 EPS of Rs.17.50. Post issue, the stock is priced at a P/E of 31.07x on its EPS of Rs.16.61. Looking at the P/B ratio at Rs.516, pre issue, book value of Rs. 61.63 of P/Bv 8.37x. Post issue, book value of Rs.90.23 of P/Bvx 5.72x.

Industry Overview

The Indian Healthcare delivery market is estimated to grow to ₹5 trillion in the financial year 2022 CRISIL Research estimates the Indian healthcare delivery market to reach ₹5 trillion in value terms by the end of the financial year 2022, with growth being contributed by low base and the pent-up demand from deferred treatments in the financial year 2021. 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. As opposed to the financial year 2021, whilst government investments in the sector to combat the COVID-19 pandemic via temporary establishments had gained prominence, and private hospitals saw revenue erosion owing to travel restrictions, the private sector is expected to complement the role of the government in the financial year 2022 early on. Healthcare delivery industry to grow 15-17% over next four years, with renewed impetus from PMJAY and government focus shifting onto healthcare sector, the healthcare delivery market is expected to grow at 15-17% compounded annual growth rate (CAGR) and reach ₹7.67 trillion in the financial year 2025.

Outlook

The major thrust is towards child care health services. Currently it is a South and North centric healthcare service, provider. On the operational front, the company has posted steady top & bottom line numbers. Based on FY22 annualize earnings, the IPO appears reasonably priced. Investors may consider an investment with a long term perspective.

EVENT	INDICATIVE DATE (On or about)
IPO Open Date	27-Apr-22
IPO Close Date	29-Apr-22
Basis of Allotment Date	5-May-22
Initiation of Refunds	6-May-22
Credit of Shares to Demat Account	9-May-22
IPO Listing Date	10-May-22

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Dec-21 (9 Months)	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)
Total Operating Income	761.31	650.05	719.39
Total expenditure	504.57	487.21	522.36
Operating Profit	256.74	162.83	197.03
OPM%	33.72	25.05	27.39
Other Income	12.75	10.26	10.35
PBDIT	269.49	173.10	207.37
Depreciation	60.98	73.34	69.41
PBIT	208.51	99.76	137.96
Interest	36.93	44.06	44.61
PBT	171.59	55.70	93.36
Tax	45.17	16.13	38.02
PAT	126.41	39.57	55.34

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-21	As on 31-Mar-21	As on 31-Mar-20
Non-current assets			
Property, plant and equipment	416.73	398.90	344.61
Capital work-in-progress	5.67	28.77	42.75
Right-of-use of assets	395.82	368.90	351.65
Goodwill	2.99	2.99	2.99
Other intangible assets	1.20	1.53	2.29
Financial assets			
Investments	0.00	8.00	0.00
Loans	49.72	0.00	0.00
Other financial assets	42.21	54.69	47.14
Deferred tax assets (net)	9.43	2.79	0.35
Income tax assets (net)	2.04	4.49	2.17
Other non-current assets	6.83	13.10	22.70
Total non-current assets	932.65	884.15	816.63
Current assets			
Inventories	12.56	10.10	15.98
Financial assets			
Investments	62.26	10.26	9.90
Trade receivables	40.12	43.97	43.96
Cash and cash equivalents	7.28	5.66	6.70
Bank balances other than (iii) above	155.81	89.02	90.54
Loans	0.00	27.79	24.09
Other financial assets	13.00	0.00	0.00
Other current assets	16.08	10.32	11.44
Total current assets	307.11	197.12	202.60
Total Assets	1239.76	1081.27	1019.24
Non-current liabilities			
Financial liabilities			
Borrowings	27.27	40.52	45.81
Lease liabilities	485.90	464.77	421.71
Provisions	5.71	5.52	7.11
Deferred tax liabilities (net)	0.00	0.00	5.34
Total non-current liabilities	518.88	510.81	479.97
Current liabilities			
Borrowings	13.42	7.45	11.87
Lease liabilities	7.19	5.73	10.83
Trade payables			
Total outstanding dues to micro enterprises and small enterprises	2.96	0.05	3.14
Total outstanding dues to creditor other than micro enterprises and small enterprises	62.94	53.67	55.03
Other financial liability	20.17	39.46	34.47
Other current liabilities	11.67	9.40	10.18
Provisions	1.48	2.47	0.79
Current tax liabilities (net)	7.36	3.85	3.64
Total current liabilities	127.19	122.08	129.96
Total	646.07	632.89	609.92
NET Worth	593.69	448.38	409.31
Net worth represented by:			
Share capital	105.00	54.90	54.90
Reserves and surplus	485.30	391.46	350.50
Minority Interest	3.39	2.01	3.91
Net Worth	593.69	448.38	409.31

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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