

April 26, 2022

## Rainbow Children's Medicare Limited IPO

Rainbow Children's Medicare was incorporated in 1999 at Hyderabad, Company is One of the leading multi-specialty pediatric and obstetrics and gynecology hospital chains in India. Rainbow Hospital operates 14 hospitals and 3 clinics in 6 cities with a bed capacity of 1500. Company has also expanded their operations to include obstetrics and gynecology services, whereby they offer comprehensive perinatal services to patients. Company ensures that most of their core specialists are available 24/7 at their hospitals, which is particularly important for children's emergency or care services.

**Positives:** (a) More than 70% of the current bed capacity are matured beds, which are having higher occupancy ratio as of 31st December 2021. (b) Company having dominant market position in South Indian for pediatric and obstetrics. (c) Company having Hub-and-spoke model in South India, this provided synergies and better care for patients.

**Investment concerns:** (a) Increase in competition in the south Indian market as well as north Indian market. (b) It will be challenging for the company to maintain EBITDA margins as the company plans to increase beds by 500 in the next 4-5 years. (c) After the IPO, promoter group shareholding will go down to 49.8%. (d) ARPOB has increased by 57% in last two years, it will be difficult for the company to increase ARPOB from these levels and this will create pressure on EBITDA margins.

**Outlook & Valuation:** Based on 9MFY22 numbers, the IPO is priced at a Price to Earning 30.4 of times and EV/EBITDA of 13.8 times at the upper price band of the IPO, which is in line with listed peer group. Company revenue and return ratios have improved significantly in 9MFY22 which we don't expect company can maintain this growth in near future. Given the expensive valuation, we are assigning a **"NEUTRAL"** recommendation to the Rainbow Children's Medicare IPO.

### Key Financials

Y/E March (₹ cr)	FY19	FY20	FY21	9MFY21	9MFY22
<b>Net Sales</b>	542.8	719.4	650.0	486.2	761.3
% chg	-	32.5	(9.6)		56.6
<b>Net Profit</b>	44.6	55.3	39.6	38.5	126.4
% chg	-	24.1	(28.5)		228.1
EBITDA (%)	28.9	28.8	26.6	28.5	35.4
EPS (as stated)	4.7	5.7	4.21	4.04	13.20
P/E (x)	116.1	94.5	128.9	100.6	30.8
P/BV (x)	14.0	12.8	11.6	11.6	8.8
RONW (%)	12%	14%	9%	9%	21%
ROCE (%)	12%	16%	10%	9%	19%
EV/EBITDA	35.7	27.0	32.5	30.4	15.5
EV/Sales	10.3	7.8	8.7	8.7	5.5

Source: Company, Angel Research

## NEUTRAL

Issue Open: April 27, 2022

Issue Close: April 29, 2022

### Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹105cr

Offer for sale: ₹1,301cr

Fresh Issue: ₹280 cr

Issue size (amount): ₹1,581cr

Price Band: ₹516-542

Lot Size: 27 shares

Post-issue mkt.cap: ₹5,251\*– 5,501cr\*\*

Promoter holding Pre-Issue: 62.2%

Promoter holding Post-Issue: 49.8%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50%
Non-Institutional	15%
Retail	35%

### Post Issue Shareholding Pattern

Promoters	49.8%
Public	50.2%

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## Company background

Rainbow Children's Medicare Private Limited was incorporated on August 7, 1998. Dr Ramesh Kancharla, Dr Dinesh Kumar Chirla and Dr Adarsh Kancharla are the Promoters of the company.

Rainbow Children's Medicare Limited is a leading multi-specialty pediatric and obstetrics and gynecology hospital chain in India, operating 14 hospitals and 3 clinics in 6 cities, with a total bed capacity of 1,500 beds, as of December 31, 2021. Out of this 1500 beds operational beds are 1150. Company expected to increase the total beds by 500 in next 4-5 years.

Companies 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.

Company ability to recruit and retain high caliber medical professionals has been integral to the success of their business. They follow a doctor engagement model whereby most of their core specialists work exclusively at their hospitals on a full-time retainer basis. This model ensures that most of their core specialists are available 24/7 on a roster basis at their hospitals, which is particularly important for children's emergency, neonatal and pediatric intensive care services. As of December 31, 2021, they had 641 full-time doctors and 1,947 part time/visiting doctors.

## Issue details

Rainbow Children's Medicare Limited is raising ₹1,581cr through fresh issue of ₹280 cr and OFS of ₹1,351 crores in the price band of ₹516-₹542 per share.

### Exhibit 1: Pre & Post Shareholding

Particular	(Pre-issue)		(Post-issue)	
	No of shares	%	No of shares	%
Promoter	5,99,12,384	62.19%	5,05,77,596	49.8%
Public	3,64,21,624	37.81%	5,09,22,464	50.2%
Total	9,63,34,008	100%	10,15,00,060	100%

Source: Company, Angel Research

## Objectives of the Offer

- Early redemption of NCDs issued by Company (40cr).
- Capital expenditure towards setting up of new hospitals and purchase of medical equipment for such new hospitals.(170 cr)
- General corporate purposes.

## Key Management Personnel

1. **Dr Ramesh Kancharla** is the Promoter, Chairman and Managing Director of the company. He has over 23 years of experience with the company. Prior to setting up the company, he was associated with King's College Hospital, where he completed his specialist training in paediatric gastroenterology, hepatology and nutrition.
2. **Dr Dinesh Kumar Chirla** is the Promoter and Whole-time Director of the company. He has over 18 years of experience in the healthcare industry.
3. **Aluri Srinavasa Rao** is the Independent Director of the company. He was appointed to the Board on March 15, 2019. He has over 22 years of experience. He has worked at Natco Pharma Ltd in several capacities. He has also headed the operations as the Managing Director at Morgan Stanley Private Equity Asia and has also worked at ICICI Venture. He also serves as a member of the Board of several pharmaceutical companies like Medisys Eductech Pvt Ltd, Qunu Labs Pvt Ltd and Janaadhar (India) Pvt Ltd.
4. **Dr Anil Dhawan** is the Independent Director of the company. He was appointed to the Board on August 30, 2018. He has over 25 years of experience in the Healthcare Industry.
5. **Sundari Raviprasad Pisupati** is the Independent Director of the company. She was appointed to the Board on September 16, 2021. She has over 27 years of experience as a lawyer in India and is qualified to practice in the USA.
6. **Santanu Mukherjee** is the Independent Director of the company. He was appointed to the Board on October 22, 2021. He has over 37 years of experience in the banking sector. He was the Managing Director of State Bank of Hyderabad, headed the French operations of State Bank of India in Paris.

**Exhibit 2: Consolidated Profit & loss Account**

Y/E March (₹ cr)	FY19	FY20	FY21	9MFY21	9MFY22
<b>Total operating income</b>	542.8	719.4	650.0	486.2	761.3
% chg	-	32.5	(9.6)		56.6
<b>Total Expenditure</b>	394.3	522.4	487.2	355.6	504.6
Raw Material cost	80.2	105.3	103.3	76.0	161.0
Employee Benefit Expense	85.7	109.0	102.1	76.7	84.4
Other Expenses	228.3	308.1	281.9	202.9	259.2
<b>EBITDA</b>	148.5	197.0	162.8	130.5	256.7
% chg	-	32.7	(17.4)		96.7
(% of Net Sales)	27.4	27.4	25.0	26.9	33.7
Depreciation & Amortization	60.3	69.4	73.3	53.2	61.0
<b>EBIT</b>	88.2	127.6	89.5	77.3	195.8
% chg	-	44.7	(29.9)		153.2
(% of Net Sales)	16.2	17.7	13.8	15.9	25.7
Interest & other Charges	39.0	44.6	44.1	31.3	36.9
Other Income	8.4	10.3	10.3	8.1	12.8
(% of Sales)	1.5	1.4	1.6	1.7	1.7
<b>Recurring PBT</b>	57.5	93.4	55.7	54.2	171.6
(% of Net Sales)	10.6	13.0	8.6	11.1	22.5
Tax	12.9	38.0	16.1	15.7	45.2
<b>PAT</b>	44.6	55.3	39.6	38.5	126.4
% chg	-	24.1	(28.5)		228.1
(% of Net Sales)	8.2	7.7	6.1	7.9	16.6
<b>EPS</b>	4.67	5.74	4.21	4.04	13.20
% chg	-	22.9	(26.7)		226.7

Source: Company, Angel Research

**Exhibit 3: Consolidated Profit & Loss Account**

Y/E March (₹ cr)	FY19	FY20	FY21	9MFY21	9MFY22
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	54.9	54.9	54.9	54.9	105.0
Other equity	317.2	354.4	393.5	393.3	488.7
<b>Shareholders Funds</b>	<b>372.2</b>	<b>409.3</b>	<b>448.4</b>	<b>448.2</b>	<b>593.7</b>
<b>Total Loans</b>	<b>457</b>	<b>473</b>	<b>505</b>	<b>505</b>	<b>513</b>
Other liabilities	5.6	7.1	5.5	5.8	5.7
<b>Total Liabilities</b>	<b>835</b>	<b>889</b>	<b>959</b>	<b>959</b>	<b>1,113</b>
<b>APPLICATION OF FUNDS</b>					
<b>Net Block</b>	<b>718</b>	<b>739</b>	<b>797</b>	<b>791</b>	<b>818</b>
<b>Current Assets</b>	<b>133</b>	<b>203</b>	<b>197</b>	<b>203</b>	<b>307</b>
Sundry Debtors	35	44	44	57	40
Inventories	7.0	16.0	10.1	9.1	12.6
Cash & Bank Balance	77	97	95	105	176
Other Assets	11	36	38	23	16
Current liabilities	92	130	122	117	127
<b>Net Current Assets</b>	<b>41</b>	<b>73</b>	<b>75</b>	<b>86</b>	<b>180</b>
Other Non Current Asset	76	78	88	83	114
<b>Total Assets</b>	<b>835</b>	<b>889</b>	<b>959</b>	<b>959</b>	<b>1113</b>

Source: Company, Angel Research

**Exhibit 4: Consolidated Cash Flow Statement**

Y/E March (₹cr)	FY19	FY20	FY21	9MFY21	9MFY22
Profit before tax	57.5	93.4	55.7	54.2	171.6
Depreciation	60.3	69.4	73.3	53.2	61.0
Change in Working Capital	(7.2)	(19.8)	(2.5)	(23.2)	(14.3)
Interest Expense	39.0	44.6	44.1	31.3	36.9
Direct Tax Paid	(14.6)	(20.1)	(26.5)	(19.0)	(46.1)
Others	33.7	40.5	37.6	26.9	28.0
<b>Cash Flow from Operations</b>	127	170	143	91	194
(Inc.)/ Dec. in Fixed Assets	(85.6)	(74.4)	(75.9)	(53.2)	(37.1)
Bank deposits	(31.3)	(28.3)	(4.5)	(6.8)	(67.0)
Interest received	5.3	7.8	7.5	5.8	3.8
<b>Cash Flow from Investing</b>	(117)	(117)	(83)	(45)	(162)
Proceeds/Repayment of Borrowing	37.3	0.7	(5.3)	(5.2)	(6.1)
Dividend paid on equity shares	(0.8)	(5.0)	(5.2)	(5.1)	(4.4)
Others	-	4.3	(1.7)	-	1.1
<b>Cash Flow from Financing</b>	(8.7)	(51.8)	(60.9)	(47.4)	(30.1)
Inc./ (Dec.) in Cash	1.7	1.6	(1.0)	(1.3)	1.6
<b>Opening Cash balances</b>	3.5	5.1	6.7	6.7	5.7
<b>Closing Cash balances</b>	10.3	13.4	11.3	10.8	14.6

Source: Company, Angel Research

**Exhibit 5: Financial Ratio**

Y/E March	FY19	FY20	FY21	9MFY21	9MFY22
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	116.1	94.5	128.9	100.6	30.8
P/CEPS	52.3	43.8	49.7	45.9	21.7
P/BV	14.0	12.8	11.6	11.6	8.8
EV/Sales	10.3	7.8	8.7	8.7	5.5
EV/EBITDA	35.7	27.0	32.5	30.4	15.5
<b>Per Share Data (Rs)</b>					
EPS (fully diluted )	4.67	5.74	4.21	4.04	13.20
Cash EPS	10.4	12.4	10.9	8.9	18.7
Book Value	38.6	42.5	46.5	46.5	61.6
DPS	1.0	1.0	-	2.0	-
Number of share	9.63	9.63	9.63	9.63	9.63
<b>Returns (%)</b>					
RONW	12.0%	13.5%	8.8%	8.6%	21.3%
ROCE	11.6%	15.5%	10.4%	8.9%	18.7%
<b>Turnover ratios (x)</b>					
Asset Turnover (net)	0.8	1.0	0.8	0.8	1.2
Receivables (days)	23.5	22.3	24.7	31.9	19.2
Inventory Days	5.5	9.5	6.7	8.1	7.6
Payables (days)	311.1	321.1	329.4	399.8	195.2
Working capital cycle (days)	-282.1	-289.3	-297.9	-359.8	-168.3

Source: Company, Angel Research

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