

Sales Note

Rainbow Children's Medicare Ltd.

CMP: Rs. 1,035 | TARGET PRICE: Rs. 1,272 (23%)

Company Profile

Rainbow Children's Medicare Ltd was started in 1999 with 50 beds in Banjara Hills, RCML has witnessed remarkable growth. It has evolved into a leading player in the space of Pediatrics, Obstetrics, and Gynecology, boasting a network of 16 hospitals and three clinics spanning six cities across Hyderabad, Bangalore, Chennai, Delhi, and Andhra Pradesh. With a total capacity of 1,655 beds, RCML has accumulated a substantial talent pool and valuable assets. It has distinguished itself in the underserved realm of pediatric care, with ten NABH-accredited hospitals, three EDGE-certified hospitals, and the distinction of being India's first Joint Commission International recognized reproductive center. RCML offers a comprehensive range of healthcare services, specializing in Pediatrics (including Neonatal and Pediatric intensive care, multi-specialty services, and complex procedures like multi-organ transplants in children) and Obstetrics and Gynecology (covering obstetric care, fetal care, perinatal genetic care, and a variety of assisted reproduction treatments).

Investment Rationale

56% bed capacity addition to fuel the feature growth: The Company is planning to add a bed capacity of 270 beds in FY24 at various locations (Hyderabad, Bengaluru, Tamil Nadu). Further Rainbow will add 160 beds in Bengaluru (60 beds) and Andhra Pradesh (100 beds) by FY2025. Rainbow has recently signed up a Greenfield project with 125-bed capacity in Coimbatore, which will be operational by FY2026. In FY2027, the company is looking to add 400 beds through Greenfield capex in Gurugram for which it has already acquired a land parcel of Rs 1,420 Cr and the overall capex would be around Rs 900 Cr, over the next four years. This will increase the total bed capacity by 56% from current capacity of 1,655 to 2,585 beds in FY27. We expect this capex will expand its operations in the existing and newer locations, result in an increase in revenue growth. We expect revenue to grow by 18% CAGR over the FY23 to FY26E driven by new hospital, additional beds and higher occupancy rate.

Hub and spoke business model aids in expansion : The Company operate with hub and spoke model to grow organically. At Hub it provides comprehensive outpatient and inpatient care, with tertiary and quaternary focused care. At its spoke hospital; it provides secondary care in paediatric, obstetrics and gynaecology, and emergency services. Rainbow has successfully executed this model at Hyderabad, with the Banjara Hills hospital (comprising 250 beds) being the hub that is complemented by six spokes at different locations in the city. It used a similar model in other regions such as Bangalore, Delhi, Chennai. The hub and spoke model is a cost optimal strategy due the lower establishment cost of the spoke hospital, enabling it to achieve breakeven faster. Hub hospitals, which provide tertiary and quaternary care are large in size 150 to 250 beds and require capex of Rs. 6 Mn to 7 Mn per bed. It generally takes 2 to 3 years to reach breakeven. While the spoke hospitals are small in size, typically 50 to 100 beds, and required a lower capex of Rs. 5Mn per bed. Spoke hospitals achieve breakeven faster, usually within 1 to 2 years compared to the hubs. Additionally, this model allows the company to expand its presence to larger area and capture higher patient volumes from the city as well as nearby regions. By sending complex cases to specialized hub hospitals for better patient care and making sure that the spoke hospitals spend their capital wisely. This strategy aids to achieve faster break-even at overall level.

Company Detail

Industry	Healthcare
BSE Code	543524
NSE Code	RAINBOW
Bloomberg Code	RAINBOW IN
Market Cap (INR Cr)	10,533
Promoter Holding (%)	49.83%
52wk Hi/Lo	1,185 / 619
Avg. 20 Daily Volume (NSE)	3,69,189

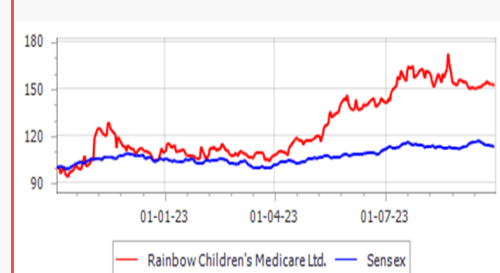
Shareholding Pattern (%)

Category	Mar-2023	Jun-2023
Promoter	49.83	49.83
Public	14.98	14.63

Public Holding More than 1% (Mar-23)

Name	% of Shares
SBI Small Cap Fund	7.62%
Axis Mutual Fund	5.87%
DSP Tax Saver Fund	5.08%
Franklin India small Cap Fund	3.63%
Aditya Birla Sun Life Trustee	1.40%
Canara Robeco Mutual Fund	1.20%

Share Price Performance



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Rainbow Children's Medicare Ltd. (RCML)

Date: 06 October, 2023

Leading position in Children care chain, pricing Power, Specialty and Favourable Payer mix led to healthy ARPOB: The Company has a healthy ARPOB of INR 50,000 per day, robust as compared to Peers. Factors leading to better realization in ARPOB are as follows: 1) Company has 1/3 reserve beds in NICU and PICU, which generally has better realizations per bed as compare to normal bed. It is higher than peers (Q1FY24 beds 1,655). 2) 70% of revenue comes from pediatric care, where it has relatively less completion leading to pricing power. 3) By focused on high-risk pregnancies and complex surgery such as (paediatric surgery, cardiac surgery, Neurology nuro surgery etc), which has better realizations per patient. 4) It payer mix consist of (52% cash,47% Insurance and 1% Institutional), as its has major portion in cash it can easily take price hikes and concentrated presence in metro cities (90% of sales from tire 1&2 cities) led to high ARPOB. We expect ARPOB to grow by 5% to 6% over FY23 to FY26E on the back of additional bed capacity, and price hikes in mature hospitals coupled with volumes.

Operating leverage led to high EBITDA Margins : Rainbow has in-house doctors and medical talents, which aids to maintain professional cost at lower and employee cost at 12% to 17%, which is lower in industry. As result increase in additional bed the cost would remain low led to higher margins. Material cost and employee cost are two major cost components for the hospitals. Rainbow has the lowest costs as compared to peers. Rainbow has 34% EBITDA margins, which is significantly high than peers. We expect EBITDA to grow at 15% CAGR over FY23 to FY25E and margins will sustain at 30% to 34% on the back of operating leverage, high pricing power, and cost optimal strategy (Hub & Spoke model).

Valuation and Recommendation

- Stock is trading at forward PE multiple of 38.26(x)FY25E.
- We estimate a CAGR of 18% growth in revenue over FY23 - FY25 period.
- Profit after tax of Rs 275 Cr is estimated for FY25E. We Applied a PE (x) multiple of 47(x) and arrive at a market Capitalization of Rs. 12,925 Cr. Vs current Market Capitalization Rs 10,538Cr.
- A 23% upside is visible as per valuations.
- We recommend "BUY" on 'Rainbow Children's Medicare Ltd' with a target price of Rs. 1,272/share (38.26x FY25E).

Exhibit 1: We Forecast 18% Revenue CAGR over FY2023 to FY26.

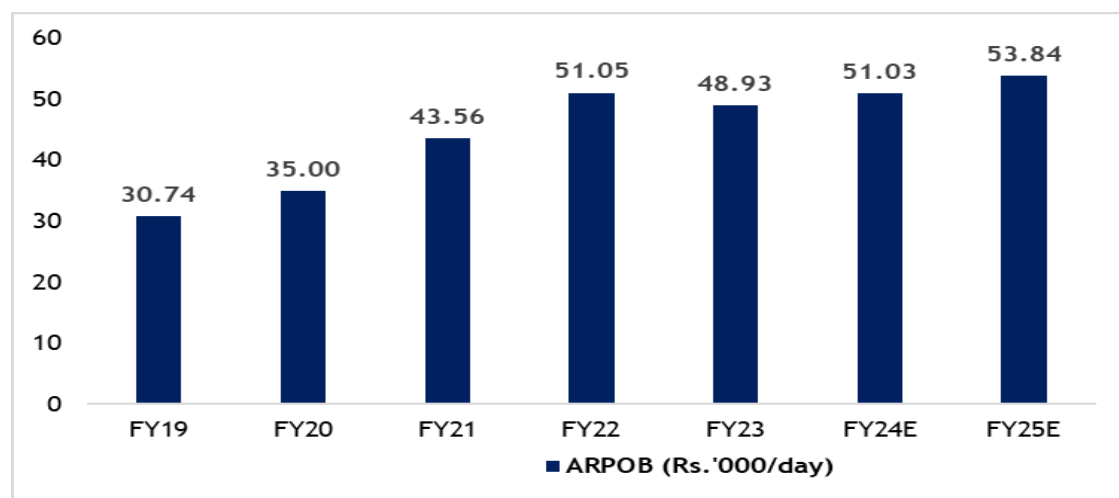
Particular	FY21	FY22	FY23	FY24E	FY25E
Bed Capacity	1475	1500	1655	1925	2085
Operational beds	1132	1147	1186	1448	1608
Occupancy rate (%)	34%	45%	55%	50%	51%
ARPOB (Rs./day)	46537	52176	48951	51399	53968
Revenue (Rs. in Cr)	650	974	1174	1358	1628

Source: Company data, GEPL Capital Research

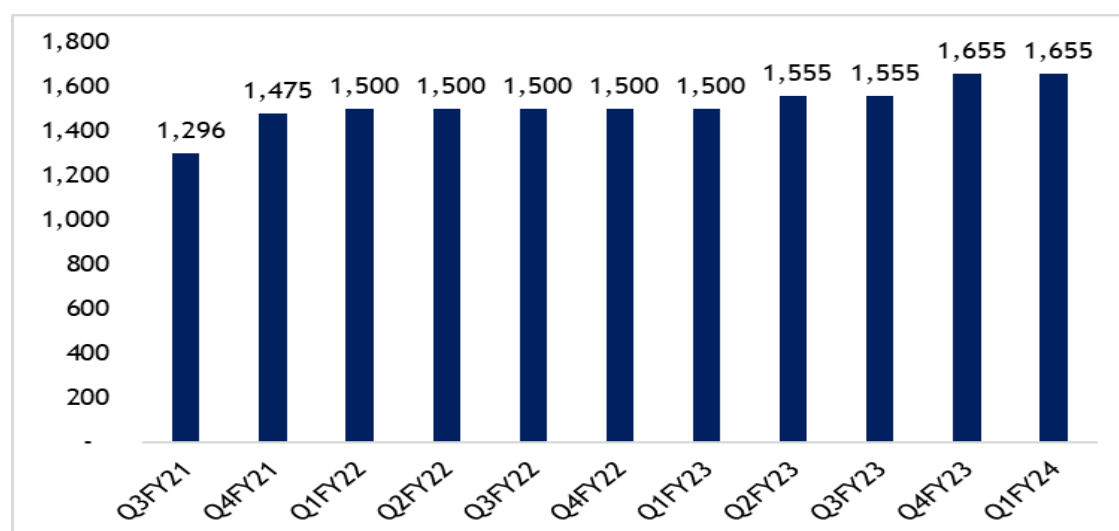
Exhibit 2: Rainbow beds expansion plan over FY2023 to FY2027

City	Current capacity	2024E	2025E	2026E	2027E	Total
Hyderabad	830	110				940
Bengaluru	352	80	60			492
Tamil Nadu	190	80		100		370
NCR	24				400	424
Andhra Pradesh	259		100			359
Total	1,655	270	160	100	400	2,585

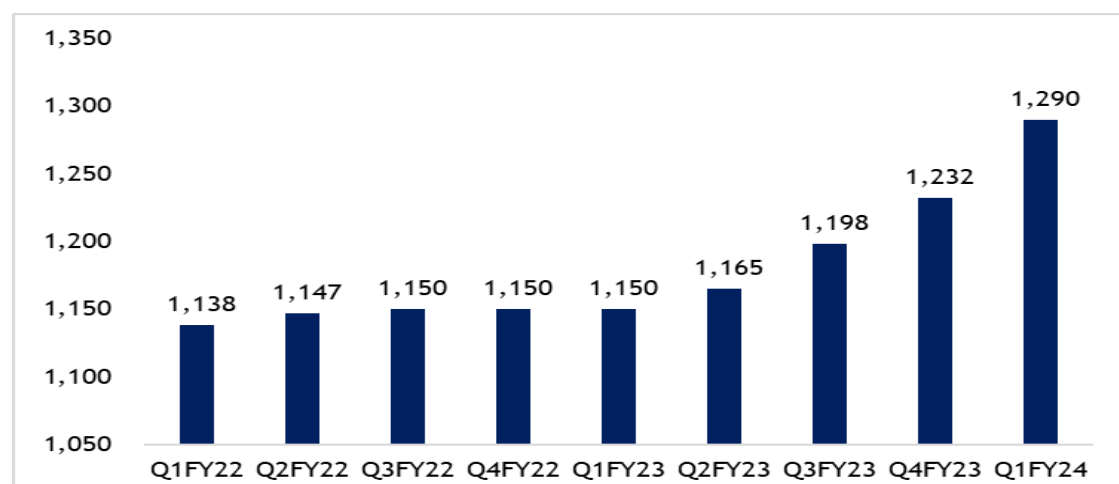
Source: Company data, GEPL Capital Research

Exhibit 3: ARPOB expect grow at 5% CAGR over FY2023-FY25E

Source: Company data, GEPL Capital Research

Exhibit 4: Quarterly Bed Capacity trend

Source: Company data, GEPL Capital Research

Exhibit 5: Quarterly Operational Bed trends.

Source: Company data, GEPL Capital Research

Exhibit 6: Hub & Spoke Model

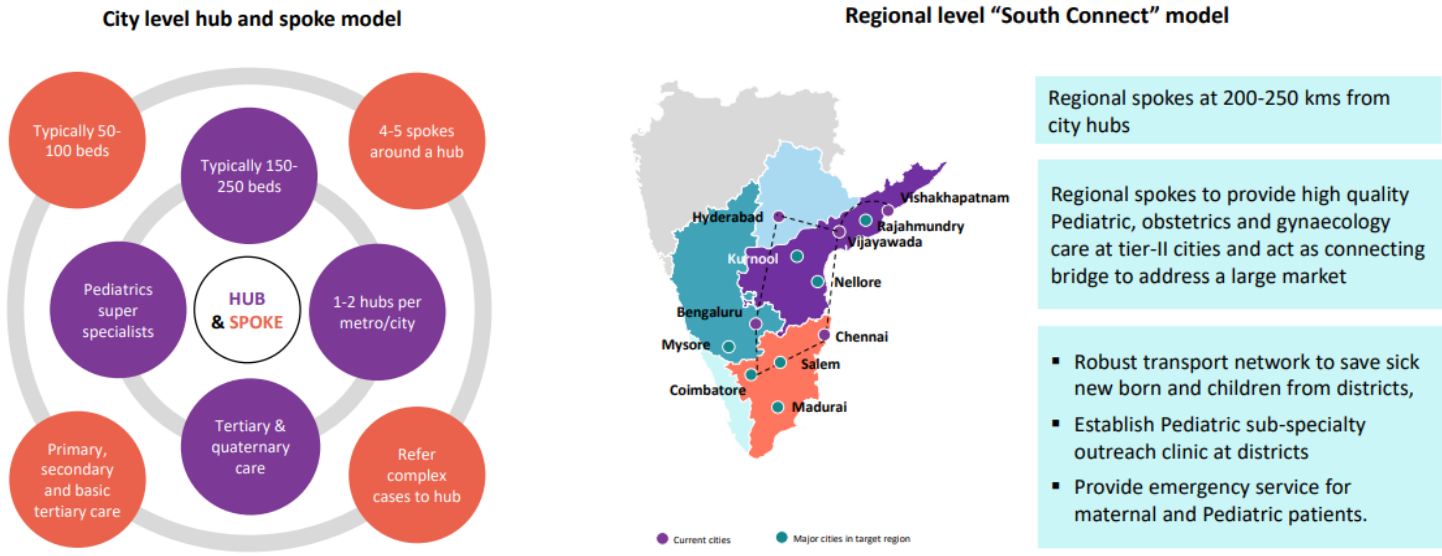


Exhibit 7: We expect EBITDA to grow at 15% CAGR over FY23 to FY25E

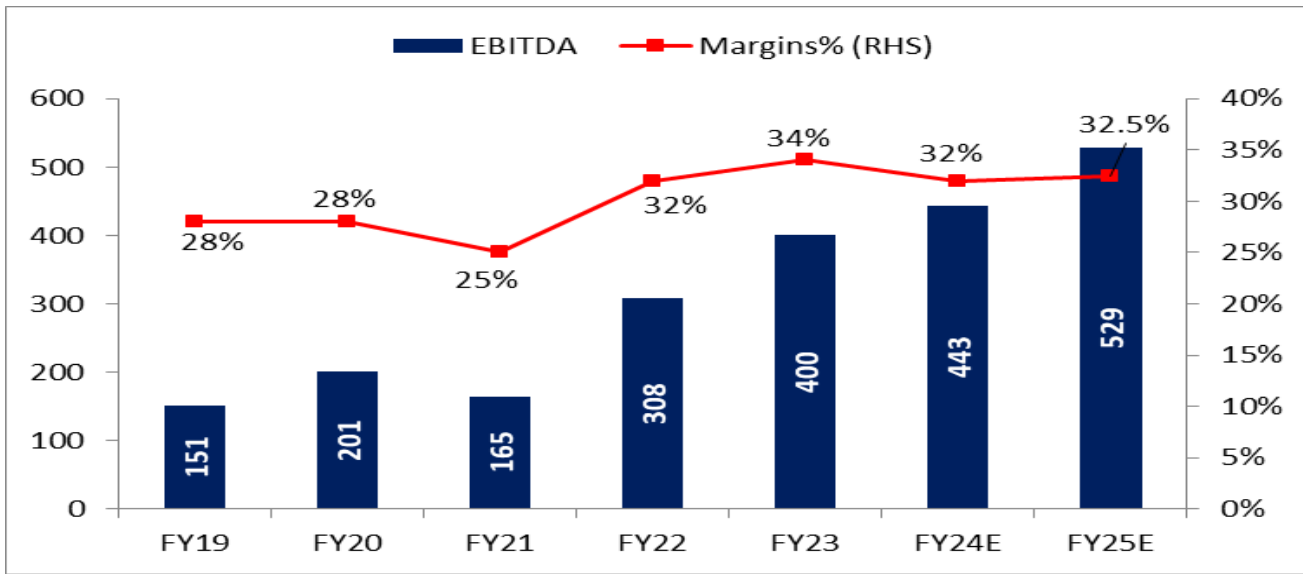
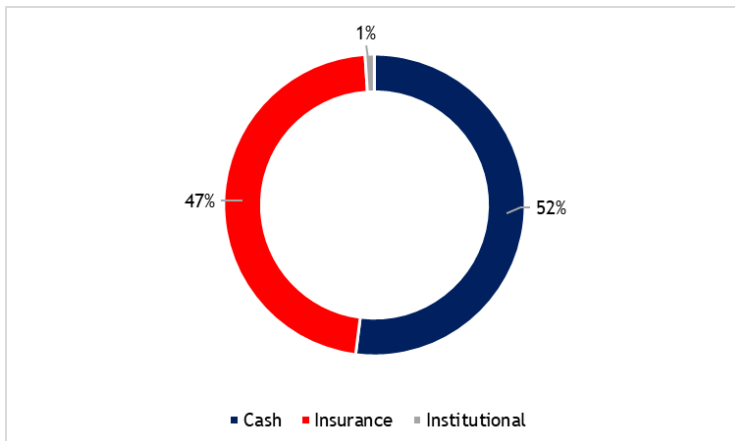


Exhibit 8: Payer Mix

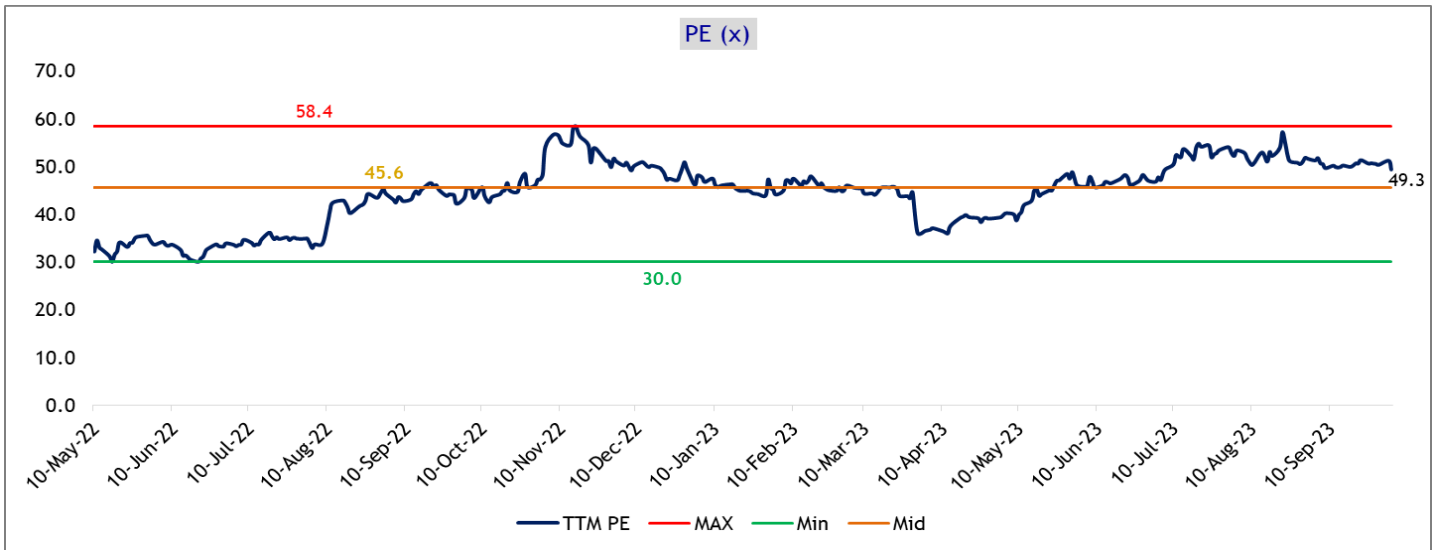


Rainbow Children's Medicare Ltd. (RCML)



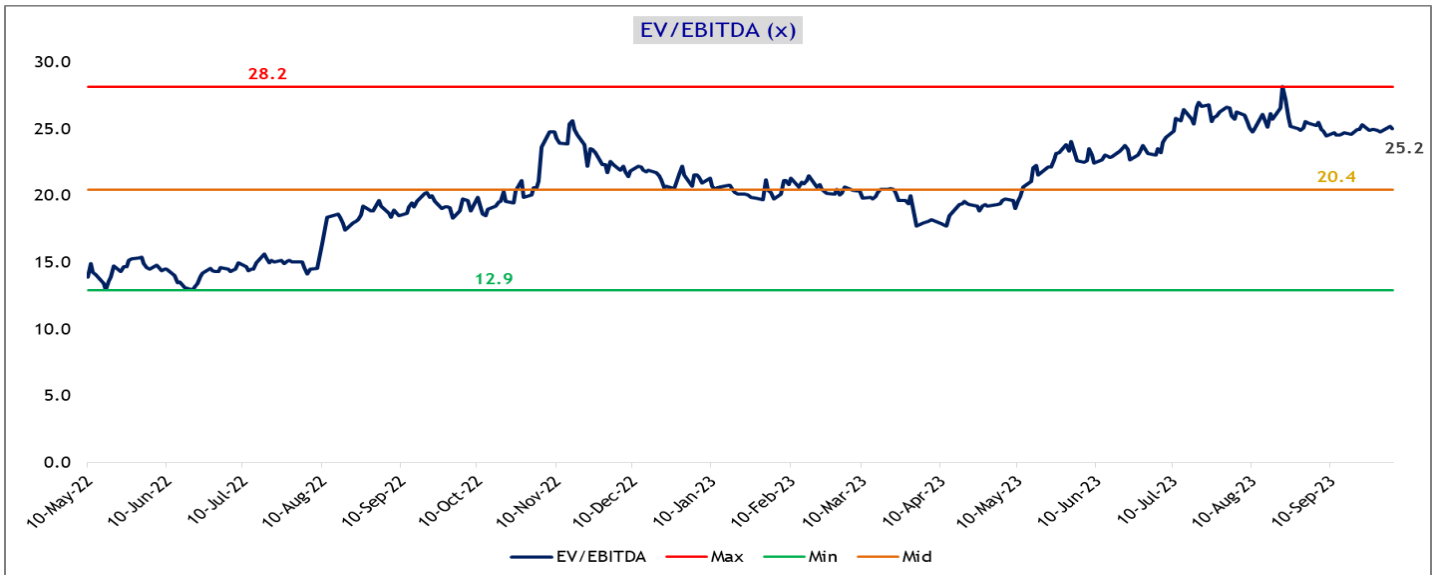
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Exhibit 9: RCML PE is trading closed to Median level.



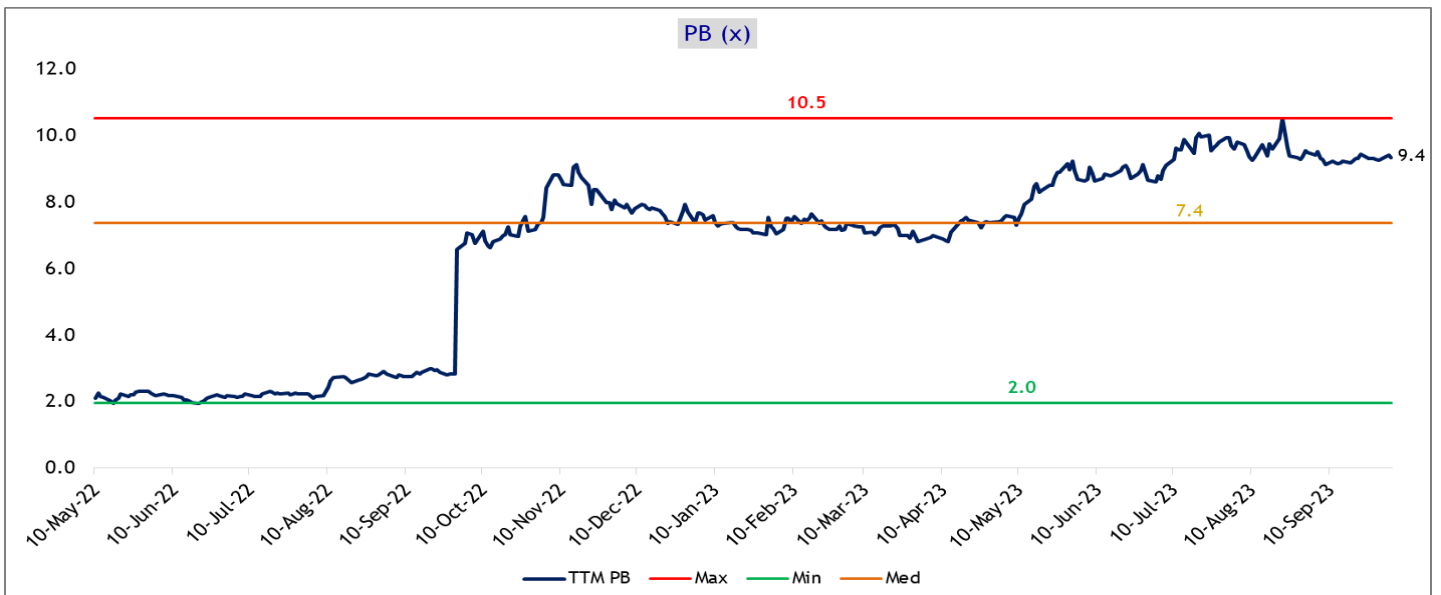
Source: GEPL Capital Research

Exhibit 10: EV/ EBITDA trading below historical high levels.



Source: GEPL Capital Research

Exhibit 11: Premium to equity has corrected to 9.4 (X) from Highs of 10.5 (x)



Source: GEPL Capital Research

Rainbow Children's Medicare Ltd. (RCML)



Date: 06 October, 2023

Exhibit 12: Profit and Loss Statement

In Rs Cr.	FY 21	FY 22	FY23	FY24E	FY25E
Net Operating Revenue	650	974	1,174	1,386	1,628
%growth		50%	21%	18%	17%
COGS	186	493	550	610	708
Gross Profit	464	481	624	776	920
Operating Expense	299	173	224	333	391
EBITDA	165	308	400	443	529
EBITDAM%	25.4%	31.6%	34.0%	32.0%	32.5%
Other Income	10	19	31	31	31
Depreciation & Amr.	73	83	90	107	122
EBIT	102	244	340	367	438
Interest	46	56	58	62	71
Exceptional items	-	-	-	-	-
Pre-Tax Profit	56	187	282	305	367
Tax Rate%	29.0%	26.0%	24.6%	25.0%	25.0%
Tax Provision	16	49	69	76	92
Profit After Tax	40	138	211	229	275
PATM%	6.2%	14.2%	18.0%	16.5%	16.9%
%growth	-28%	246%	52%	9%	20%

Exhibit 13: Balance Sheet

Source: GEPL Capital Research

In Rs Cr.	FY 21	FY 22	FY23	FY24E	FY25E
Shareholder's Fund	446	553	1,063	1,312	1,579
Equity Share Capital	55	55	105	102	102
Reserves and Surplus	391	498	958	1,210	1,477
Non-Current Liabilities	510	556	546	772	1,014
Long Term Borrowings	41	27	-	-	-
Other Long Term Liabilities	470	529	546	772	1,014
Current Liabilities	122	125	144	142	148
Short Term Borrowings	-	-	-	-	-
Trade Payables	54	64	84	114	132
Other Current Liabilities	68	61	60	28	16
Total Equity & Liabilities	1,078	1,234	1,754	2,226	2,741
Non-Current Assets	881	994	1,267	1,429	1,673
Net Fixed Assets	772	860	933	1,083	1,196
Capital Work In Progress	29	5	21	21	21
Non-Current Investments	8	0	0	-	-
Other Non-Current Assets	72	130	313	326	456
Current Assets	197	290	484	797	1,068
Inventories	10	15	19	43	19
Trade Receivables	44	40	58	68	80
Cash And Cash Equivalents	95	185	46	257	270
Other Current Assets	48	50	361	428	698
Total Assets	1,078	1,284	1,750	2,226	2,741

Source: GEPL Capital Research

Exhibit 14: Cash Flow Statement

In Rs Cr.	FY 21	FY 22	FY23	FY24E	FY25E
Reported PBT	56	187	282	305	367
Non-operating & EO items	(9)	(18)	(25)	-	-
Interest expense	46	56	58	62	71
Depreciation	73	83	90	107	122
Working capital changes	3	(22)	2	(4)	29
Taxes Paid	(26)	(63)	(81)	(76)	(92)
Operating Cash Flow (a)	143	224	337	394	497
Capex	(76)	(62)	(141)	(320)	(316)
Free Cash Flow	67	162	196	74	181
Investing Cash Flow (b)	(83)	(175)	(465)	(320)	(316)
Interest expense	(5)	(5)	(3)	-	-
Dividend	-	(9)	(20)	(23)	(28)
Others	(56)	(30)	167	-	-
Financing Cash Flow (c)	(61)	(44)	143	(23)	(28)
Net Cash Flow (a+b+c)	40	4	15	51	154
Closing Cash Balance	46	51	66	117	270

Source: GEPL Capital Research

Notes

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for stock and our recommendation.

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