

Rainbow Children's Medicare

BUY

Choice

In Q2FY25, Rainbow Children's performance was above our estimates on all metrics. Revenue grew 25.5% YoY and 26.4% QoQ to INR 4,175mn. ARPOB saw a decline led by a decrease in both mature and new hospitals. Occupancy at 59.9% vs 51.4% last year. EBITDA decreased 8% YoY and increased 8% QoQ to INR 1,471 mn, margins at 35.2% vs 48% last year, primarily due to increased expenses from the commencement of new hospitals. Adj. PAT saw a robust growth of 25.6% YoY and 98.9% QoQ to INR 790mn with margins at 18.9%

- **Rainbow to Launch Child Development Center:** Recognizing the need for extensive support for children in need, Rainbow has developed an ~8,000 sq. ft. child development center adjacent to the Cardiac Hospital in Banjara Hills, Hyderabad. This state-of-the-art facility will commence operations on November 14, 2024, aligning with Children's Day and Rainbow's foundation day, marking a significant milestone in the organization's commitment to child healthcare and development across the region.
- **IVF Services:** The company saw significant growth in its IVF services, with approximately 70% YoY revenue growth in Q2 FY25. This momentum is credited to organic growth primarily from patient referrals within its obstetrics services, aligning with the company's strategy to prioritize B2C engagement over B2B expansion. The company is optimistic about sustaining this growth trajectory in the IVF segment in the upcoming quarters.
- **Upcoming Projects:** The 100-bed facility in Rajahmundry is progressing well and is set to commence operations by March 2025. Meanwhile, the 60-bed Bengaluru project has encountered delays due to conflicts between the landlord and builder, with commissioning now expected by the end of H1 FY26. The 130-bed Coimbatore facility is projected to be completed within 24 months, and approvals are awaited to begin project work in Gurugram. Additionally, the 90-bed brownfield project in Bengaluru is in the final stages of construction, with operations anticipated to start by Q3 FY26.
- **Uptick in Inpatient and Outpatient volume:** During the quarter, the company experienced solid growth in IPD volumes, which increased by 22% YoY to 28,526. Similarly, OPD volumes grew by 20% YoY to 4,04,593. Management expressed optimism about sustaining and surpassing this growth momentum in the coming quarters as the new hospitals ramp up their operations.
- **Launch of "Butterfly Essentials" Retail Store:** Rainbow has recently launched "Butterfly Essentials," a retail store dedicated to women's and children's products. This initiative is designed to enhance the retail experience within hospital facilities by providing a diverse range of items that prioritize organic and natural ingredients for mothers, babies, and children. Initially, Rainbow plans to open Butterfly Essentials outlets in several of its existing hospital locations.
- **Outlook & Valuation:** We remain positive on the company due to its focus on increasing bed capacity, occupancy, and IPD/OPD volumes, the launch of the ButterflyEssentials store, as well as expanding IVF services across existing and upcoming hospitals. The company is expected to achieve late-teen top-line growth, supported by a strong capex plan that will further boost its bed capacity. We introduce FY27E and value the stock at 23x EV/EBITDA and arrive at a target price of **INR 1,699** with a **BUY** rating on the stock.

Quarterly performance

Result Snapshot (Rs.mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Net Sales	4,175	3,327	25.5	3,302	26.4
Employee Expenses	1,490	1,202	23.9	1,340	11.2
Operating Expenses	697	527	32.4	601	16.1
EBITDA	1,471	1,598	(8.0)	1,362	8.0
Depreciation	349	268	30.2	341	2.2
Other Income	113	78	44.1	119	(5.6)
EBIT	1,235	1,408	(12.3)	1,140	8.3
Interest Cost	181	133	35.7	182	(0.3)
PBT	1,054	1,275	(17.4)	958	9.9
Exceptional Items	-	-	NA	-	NA
Tax	264	221	19.3	136	93.4
Minority Interest	(1)	3	(154.2)	(2)	(30.3)
RPAT	790	1,054	(25.1)	822	(3.9)
APAT	790	629	25.6	397	98.9
EPS (Rs)	7.8	6.2	25.6	3.9	98.9

Operational Performance	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (bps)
Employee Exp. % of Sales	35.7	36.1	(45)	40.6	(488)
Other Op. Exp % of Sales	16.7	15.8	88	18.2	(148)
EBITDA Margin (%)	35.2	48.0	(1,280.5)	41.2	(601)
Tax Rate (%)	25.0	17.3	768	14.2	1,079
APAT Margin (%)	18.9	18.9	1	12.0	689

Source: Company, CEBPL

	Oct 29, 2024
CMP (Rs)	1,499
Target Price (Rs)	1,611
Potential Upside (%)	7.5

*CMP as on 28th Oct 2024

Company Info

BB Code	RAINBOW IN Equity
ISIN	INE961001016
Face Value (Rs.)	10.0
52 Week High (Rs.)	1,649
52 Week Low (Rs.)	994
Mkt Cap (Rs bn.)	152
Mkt Cap (\$ bn.)	1.8
Shares o/s (Mn.)/F.F(%)	101.5/50
Adj. TTM EPS (Rs)	22.9
FY27E EPS (Rs)	45.1

Shareholding Pattern (%)

	Sep-24	Jun-24	Mar-24
Promoters	49.85	49.87	49.83
FII's	25.12	24.78	24.04
DII's	13.84	13.81	14.76
Public	11.20	11.53	11.37

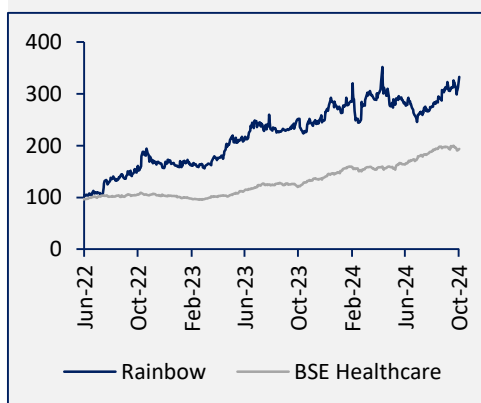
Relative Performance (%)

YTD	6M	1Yr	2Yr
BSE HC	22.5	59.2	83.7
Rainbow	11.5	32.4	119.4

Year end March (INR bn)

Particular	FY24	FY25E	FY26E	FY27E
Revenue	13.0	15.3	18.4	22.4
Gross Profit	11.3	13.4	16.1	19.6
EBITDA	4.3	5.1	6.3	7.8
EBITDA (%)	33.1	33.4	34.3	34.6
EPS (INR)	21.5	27.2	35.0	45.1

Rebased Price Performance



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CEBPL Estimates vs Actual

Particulars (Rs.mn)	Actual	CEBPL Est.	Deviation (%)
Revenue	4,175	3,434	21.6
EBIDTA	1,471	999	47.2
EBIDTA Margin (%)	35.2	29.1	613bps
Adj. PAT	790	515	53.3

Source: Company, CEBPL

Changes in Estimates

Income Statement (INR Mn.)	FY25E			FY26E			FY27E
	New	Old	Dev. (%)	New	Old	Dev. (%)	New
Net sales	15,303	15,239	0.4	18,364	18,134	1.3	22,404
EBITDA	5,111	5,059	1.0	6,295	6,198	1.6	7,752
EBITDA margin(%)	33.4	33.2	20.0	34.3	34.2	10.0	34.2
APAT	2,763	2,735	1.0	3,553	3,492	1.8	4,574
EPS	27	27	1.0	35	34	1.8	45

Source: Company, CEBPL

SOTP Valuation

Segment	INR mn	(x)	Value (INR mn)
Hospitals-EBITDA (Sep-FY27E)	7,024	24	1,68,565
Total EV			1,68,565
Less: Net Debt			5,075
Implied Market Cap			1,63,490
No. of shares			102
Target Price (Rs.)			1,611

Source: Company, CEBPL

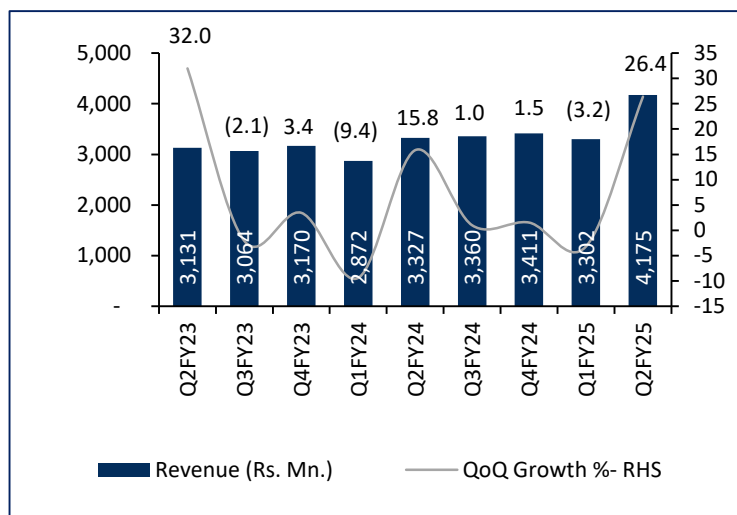
Management Call - Highlights

- The IVF services have shown promising progress and are gaining considerable traction.
- The company is encountering challenges in its international business, particularly in countries such as Bangladesh, Oman, Kenya, and Sudan.
- In response, efforts are being made to actively engage with the health authorities in these regions while also exploring opportunities in other provincial markets.
- A retail brand called Butterfly Essentials has been introduced, which is a specialized store aimed at meeting the unique needs of women and children. In the initial phase, there are plans to open Butterfly Essentials locations within most existing facilities.
- An 8,000 square foot, state-of-the-art comprehensive child development center is being established next to the cardiac center in Banjara Hills, Hyderabad, with an expected launch date of November 14th, coinciding with Children's Day and Earth Foundation Day.
- Notably, the company is the only pediatric hospital chain in the country with three JCI-accredited facilities.
- The payer mix remains robust and balanced, with 52.8% of revenue generated from insurance and the remaining 47.2% from cash patients.
- Capital expenditure will be financed through internal accruals.
- Management is optimistic about maintaining growth in IVF services and overall operational efficiency as new hospitals are integrated into the hub-and-spoke model.
- Further expansion and enhancements in service delivery across the facilities are anticipated.
- Rainbow has strengthened its hub-and-spoke model by opening new hospitals in Hyderabad and Chennai, contributing to operational stabilization and integration into their operating model.
- The company has maintained its focus on quality healthcare, achieving NABH accreditation for 13 hospitals and JCI accreditation for three facilities, making it the only pediatric hospital chain in India with multiple JCI-accredited hospitals.

Upcoming Projects:

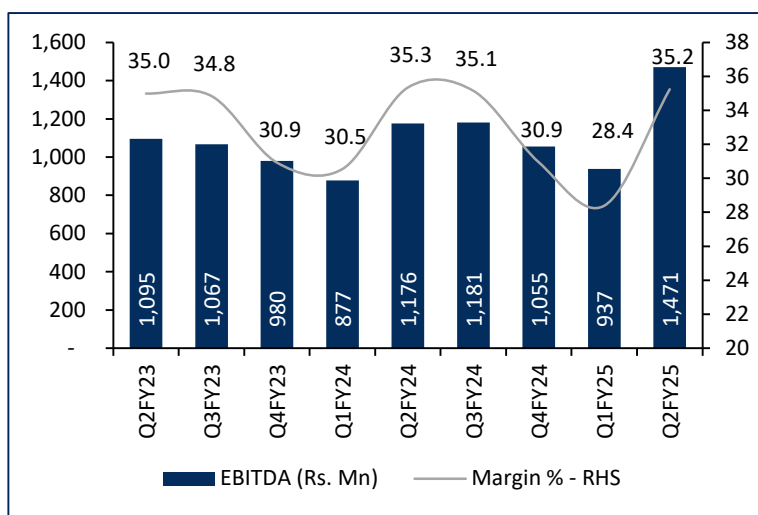
- Rajahmundry (100 beds): Progressing well and on track to commence by March 2025.
- Bengaluru (60 beds): Expected delays due to conflicts between the landlord and builder, with commissioning anticipated by the end of H1 FY26.
- Coimbatore (130 beds): Expected to be completed in 24 months.
- Gurugram: Awaiting approval to initiate project works.
- Bengaluru (90 beds, brownfield): The building is in the final stages of construction, with operations expected to commence by Q3 FY26.

Revenue (Rs mn) & QoQ Growth (%)



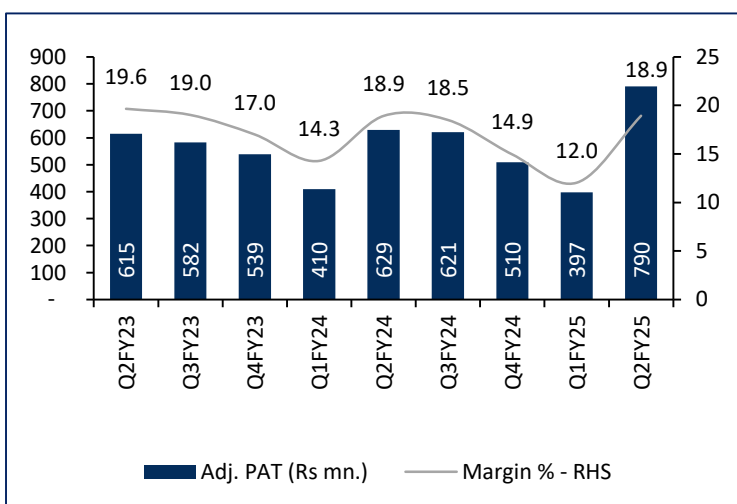
Source: Company, CEBPL

EBITDA (Rs mn) & Margin (%)



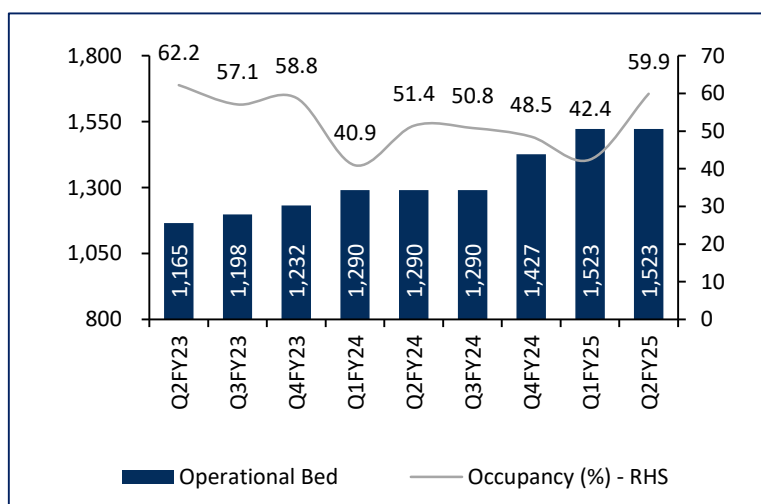
Source: Company, CEBPL

Adj. PAT (Rs mn) & Margin (%)



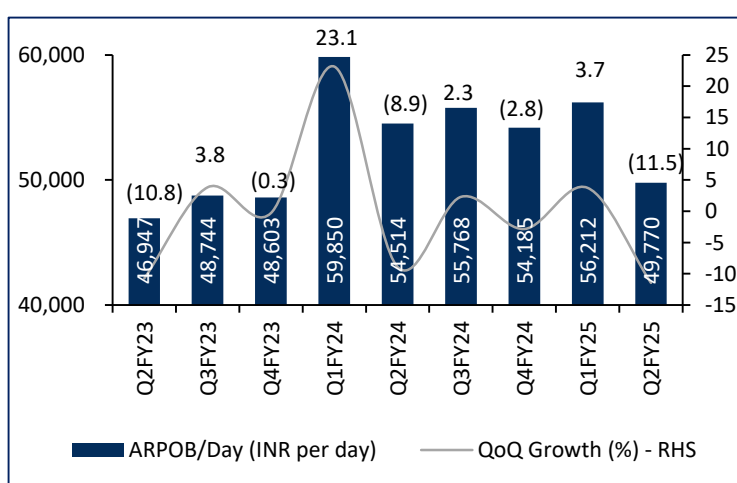
Source: Company, CEBPL

Operational Bed & Occupancy (%)



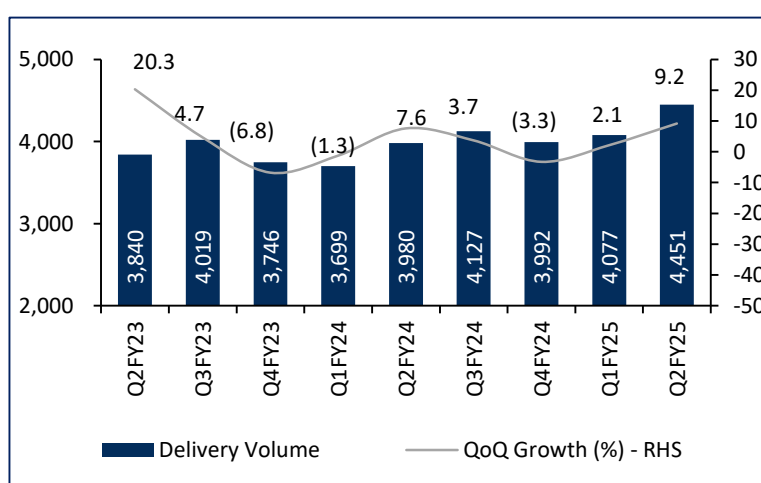
Source: Company, CEBPL

ARPOB (Rs.) & QoQ Growth (%)



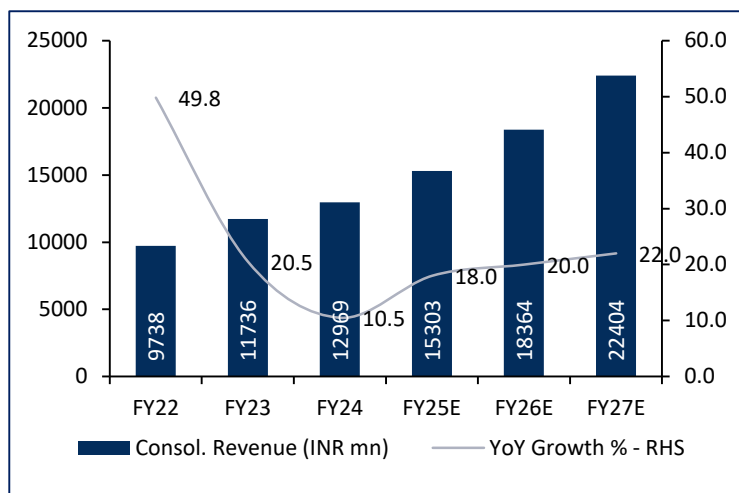
Source: Company, CEBPL

Delivery Volume & QoQ Growth (%)



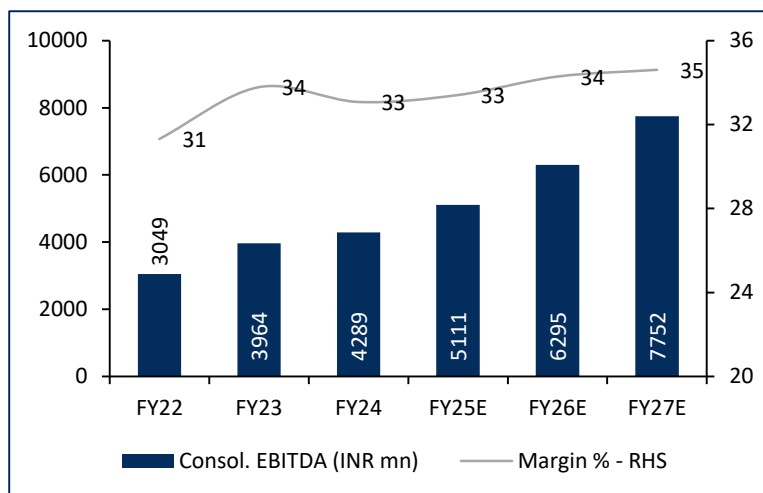
Source: Company, CEBPL

Revenue (Rs mn) % YoY growth (%)



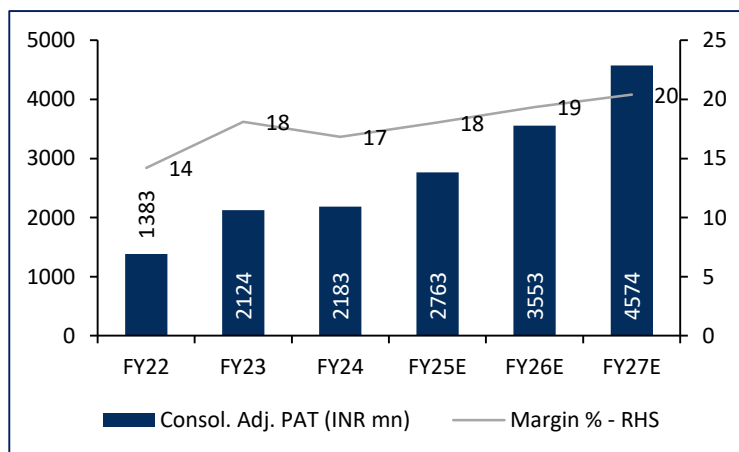
Source: Company, CEBPL

EBITDA (Rs mn) & Margin (%)



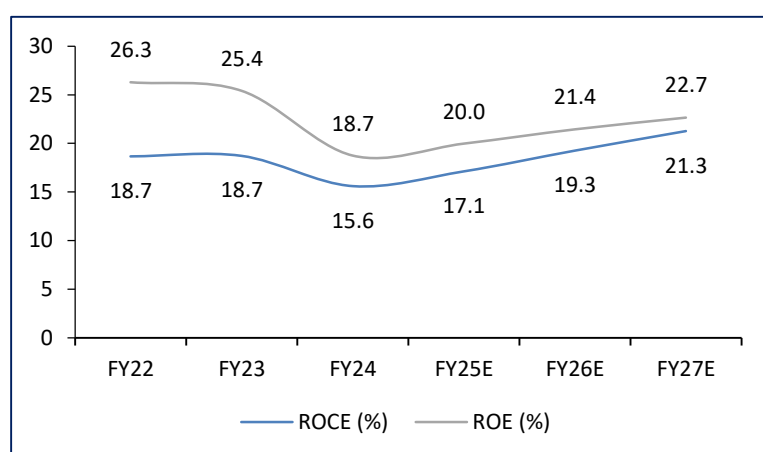
Source: Company, CEBPL

PAT (Rs mn) & Margin (%)



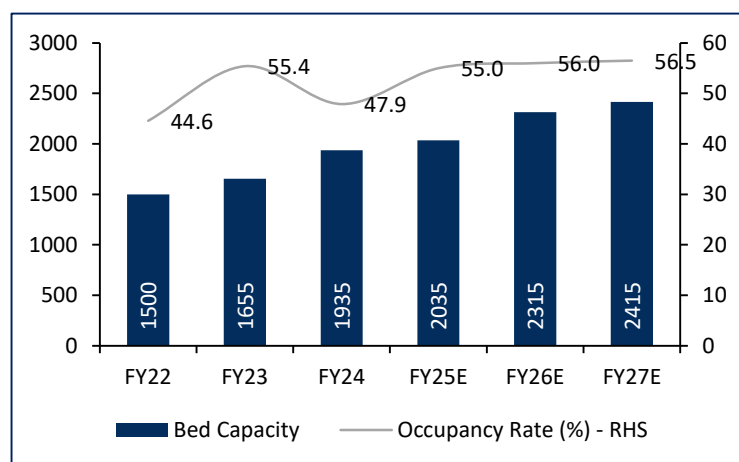
Source: Company, CEBPL

ROCE (%) & ROE (%)



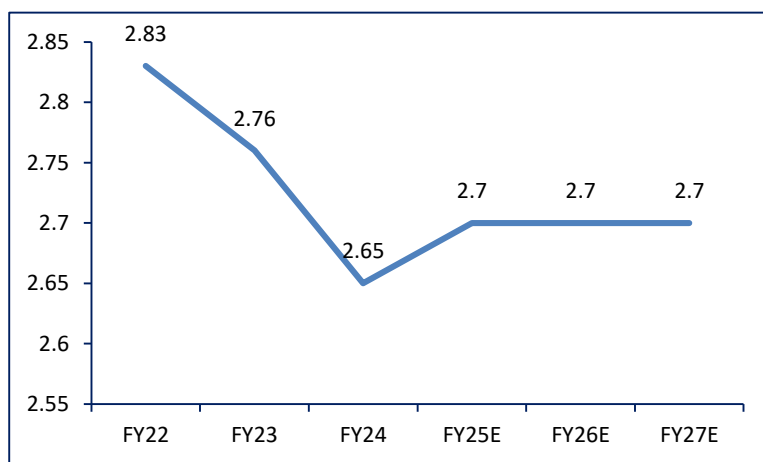
Source: Company, CEBPL

Bed Capacity and Occupancy (%)



Source: Company, CEBPL

ALOS (Days)



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particulars	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	9,738	11,736	12,969	15,303	18,364	22,404
Gross profit	7,790	10,153	11,316	13,390	16,105	19,648
EBITDA	3,049	3,964	4,289	5,111	6,295	7,752
Depreciation	833	903	1,121	1,286	1,496	1,706
EBIT	2,216	3,061	3,168	3,825	4,799	6,046
Interest expense	532	552	591	549	509	462
Other income	189	309	371	408	448	516
EO Items	0	0	0	0	0	0
Reported PAT	1,387	2,124	2,183	2,763	3,553	4,574
Minority Interest	(4)	(15)	(13)	(20)	(20)	(20)
Adj. PAT	1,383	2,124	2,183	2,763	3,553	4,574
EPS	13.2	20.9	21.5	27.2	35.0	45.1
NOPAT	2,994	4,061	4,279	5,100	6,399	8,061

Source: Company, CEBPL

Balance sheet (Consolidated in INR Mn.)

Particulars	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net worth	6,063	10,649	12,649	15,018	18,128	22,259
Deferred Tax	-	-	-	-	-	-
Borrowings	5,809	5,703	7,653	7,323	6,793	6,163
Trade Payables	644	845	815	964	1,107	1,350
Other non-current liabilities	57	71	77	77	77	77
Other current liabilities	385	495	510	510	510	510
Total Net Worth & liabilities	12,958	17,763	21,704	23,892	26,615	30,359
Net Block	8584	9311	12530	13703	15206	16500
Capital WIP	46	209	138	138	138	138
Investments & Others	1,139	3,551	5,564	5,832	6,298	6,936
Trade Receivables	404	583	704	880	1,107	1,350
Cash & Bank	1,852	455	101	523	803	2,003
Other non-current assets	507	438	330	363	400	460
Other current assets	425	3,217	2,336	2,452	2,663	2,971
Total Assets	12,957	17,763	21,704	23,892	26,615	30,359
Net Debt	3,957	5,248	7,552	6,800	5,990	4,160

Source: Company, CEBPL

Cash Flows (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Cash flows from operations	2,237	3,272	3,214	3,986	4,622	5,605
Cash flows from investing	(1,753)	(4,652)	(2,265)	(2,726)	(3,466)	(3,638)
Cash flows from financing	(441)	1,434	(1,018)	(485)	(596)	(649)
Capex	1,694	1,629	4,339	2,500	3,000	3,000
FCFF	1,616	1,859	(322)	1,360	1,357	2,167

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth Ratios						
Revenues	49.8	20.5	10.5	18.0	20.0	22.0
EBITDA	87.2	30.0	8.2	19.2	23.2	23.1
PAT	245.5	53.6	2.8	26.6	28.6	28.7
Margins						
EBITDA Margin	31.3	33.8	33.1	33.4	34.3	34.6
PAT Margin	14.2	18.1	16.8	18.1	19.3	20.4
Performance Ratio						
OCF/EBITDA (x)	0.7	0.8	0.7	0.8	0.7	0.7
OCF/IC	5	6	6	6	5	4
Return on equity (ROE)	26.3	25.4	18.7	20.0	21.4	22.7
Return on capital employed (ROCE)	18.7	18.7	15.6	17.1	19.3	21.3
Turnover Ration (Days)						
Inventory days (x)	6	6	7	6	7	7
Receivable days (x)	15	18	20	21	22	22
Creditor days (x)	24	26	23	23	22	22
Working Capital days (x)	-3	-2	4	4	7	7
Financial Stability Ratio						
Net debt to Equity (x)	0.6	0.4	0.4	0.2	0.1	0.0
Net debt to EBITDA (x)	1.3	1.3	1.8	1.3	1.0	0.5
Interest Cover(x)	4.2	5.5	5.4	7.0	9.4	13.1
Earnings						
Fully diluted shares (mn)	105	102	102	102	102	102
Price (INR)	1,499	1,499	1,499	1,499	1,499	1,499
Market Cap(INR Mn)	1,57,395	1,52,149	1,52,151	1,52,151	1,52,151	1,52,151
PE(x)	113	72	70	55	43	33
EV (INR Mn)	1,61,569	1,57,963	1,62,765	1,62,106	1,61,496	1,59,866
EV/EBITDA (x)	53	40	38	32	26	21
Book Value (INR/share)	58	105	125	148	179	219
Price to BV (x)	26.0	14.3	12.0	10.1	8.4	6.8
EV/OCF (x)	72.2	48.3	50.6	40.7	34.9	28.5

Source: Company, CEBPL

Historical recommendations and target price: Rainbow Children Medicare



Rainbow Children Medicare

1.	25-07-2023	Add,	Target Price - Rs.1,239
2.	01-11-2023	Outperform,	Target Price - Rs.1,239
3.	26-01-2024	Add,	Target Price – Rs.1,292
4.	21-05-2024	Buy,	Target Price – Rs. 1,441
5.	16-08-2024	Buy,	Target Price – Rs. 1,345
6.	29-10-2024	Buy,	Target Price – Rs. 1,611

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

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