MANAGEMENT DISCUSSION AND ANALYSIS

ASSESSMENT OF INDIA'S HOSPITAL MARKET

The Indian Healthcare delivery market is estimated to reach ~ ₹ 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.

Government policies to improve healthcare coverage

The government has raised its healthcare budget for the financial year 2022 to ₹ 712.7 billion, although the incremental allocation in the financial years 2021 and 2022 is more for COVID-19 related expenditure (emergency aid and vaccination drive). Nonetheless, the focus seems to have shifted from curative aspect to preventive health and well-being under the ambit of holistic healthcare. The long-term goal is to raise its healthcare spending to 2.5% of GDP by 2025 under the National Health policy 2017 from the current 1.3% of GDP.

Rising income levels to make quality healthcare services more affordable

Though healthcare is considered a non-discretionary expense, considering that approximately 83% of households in India had an annual income of less than ₹ 0.2 million in the financial year 2012, affordability of quality healthcare facilities remains a major constraint.

Growth in household incomes and, consequently, disposable incomes, are critical to the overall growth in demand for healthcare delivery services in India. The share of households falling in the income bracket above ₹ 0.2 million is expected to increase to 35% in the financial year 2022 from 23% in the financial year 2017. They provide a potential target segment (with more paying capacity) for hospitals

Increasing health awareness to boost hospitalization rate

Majority of healthcare enterprises in India are more concentrated in urban areas. With increasing urbanization (migration of population from rural to urban areas), awareness among the general populace regarding presence and availability of healthcare services for both preventive and curative care is expected to increase.

CRISIL Research therefore believes that the hospitalization rate for in-patient treatment as well as walk-in out-patients will improve with increased urbanization and increasing literacy.

Key Growth Drivers of Healthcare Delivery Industry

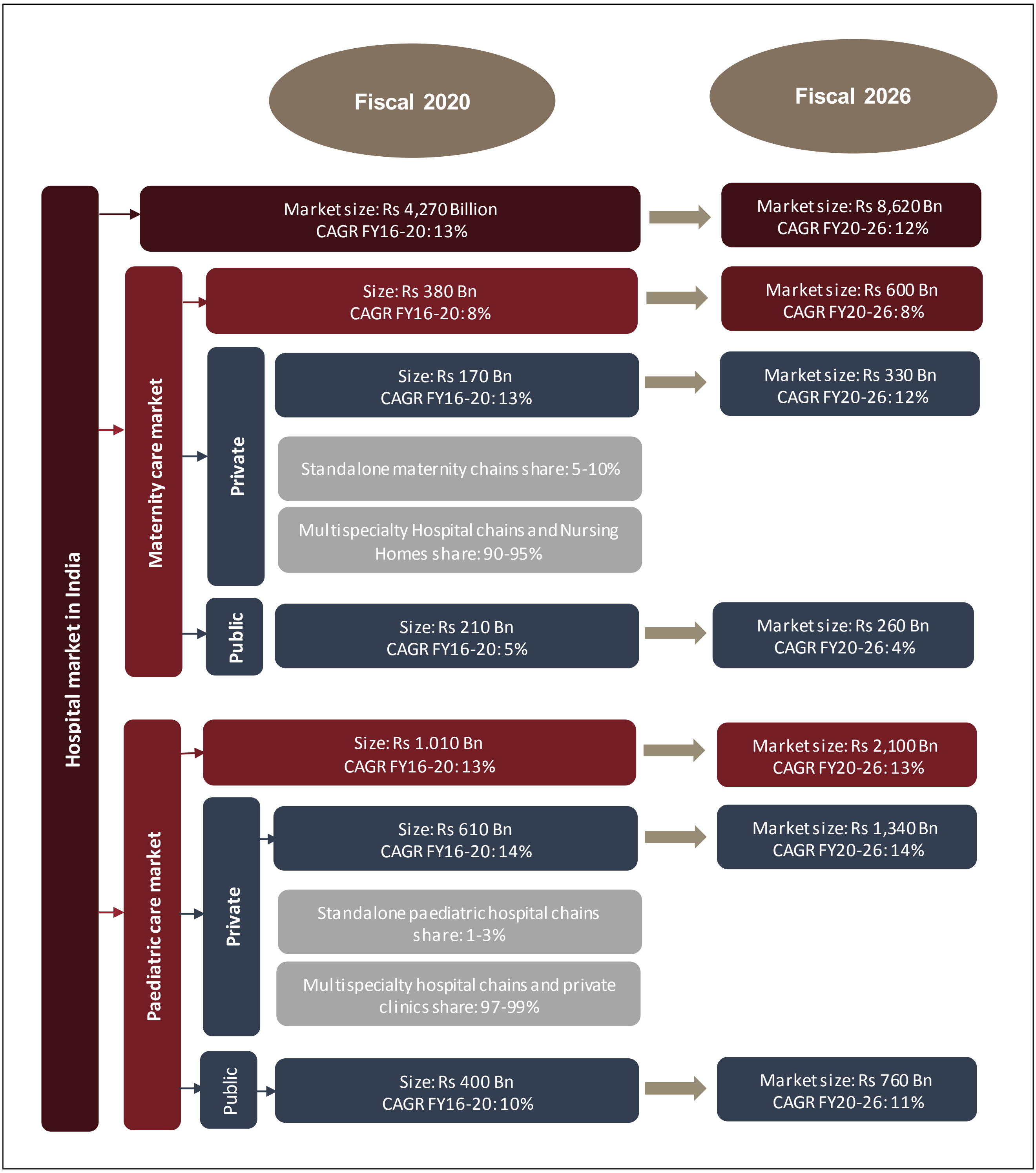
A combination of economic and demographic factors is expected to drive healthcare demand in India. CRISIL Research believes the PMJAY scheme launched by the Government would also support these drivers.

India lags behind global benchmarks in healthcare infrastructure, both in terms of physical infrastructure as well as personnel. However, the picture is bleak even on the healthcare indicators front. In case of life expectancy at birth, which reflects the overall mortality of the population, India stands at 68.8 years in comparison with the global average of 71.4 years. This is despite life expectancy at birth growing at 0.6% CAGR between 2000 and 2017.

ASSESSMENT OF MATERNITY AND PEDIATRIC CARE INDUSTRY IN INDIA

The total hospital market size in India in the financial year 2020 was expected to be approximately ₹ 4,270 billion growing at a CAGR of 13% between the financial years 2016 and 2020. The maternity market in India has seen a growth of 8% between the financial years 2016 and 2020 and is expected to grow at 7-8% between the financial years 2020 and 2026 supported by strong growth in private segment of 11-12% CAGR during the same period. The private sector is expected to grow faster on account of increased penetration of institutional deliveries, rising share of private hospitals in rural and urban areas, increase expenditure on maternity healthcare, and rise in treatment cost on account of delayed deliveries. Paediatric market which has grown at 14% CAGR between the financial years 2016 and 2020 is expected to grow at the same growth going forward supported by growth in both private and public sector healthcare units. Increasing awareness on childcare and early diagnosis is expected to contribute to growth for the industry.

Maternity and paediatric healthcare market in India



Source: CRISIL Research

SWOT ANALYSIS

STRENGTHS

Since inception, Rainbow has accomplished the accolade for saving the smallest and sickest child, with results very close to medically advanced nations. Some of the key strengths are:

1. **Ability to conceptualize, create and operate specialized children's hospitals**

   The child centric approach adopted in the hospitals makes the atmosphere suitable for quicker treatment of and recovery from severe or prolonged illnesses. A substantial proportion of capital expenditure is set aside for the interiors – which includes vibrant and visually appealing, bright interiors, designated children play area, and miscellaneous entertainment in the patient rooms. Our medical fraternity also focusses on the emotional and psychological aspects of children, mellowness and gentleness manifested in all lines of interaction with the young patients. This approach is the biggest strength of the group.

2. **Strong clinical expertise in managing complex diseases**

   Rainbow is India's largest multi-specialty pediatric care provider, based on hospital beds, as of March 31, 2021. It has its wings spread out across specialities such as pediatric cardiology, pediatric neurology, pediatric nephrology, pediatric oncology to name a few. One third of the operational beds are dedicated to critical care. Advanced neonatal and pediatric intensive care (NICU/PICU) is the forte. Multi-specialty tertiary intensive care is provided at the hub hospitals, making the group one of the very few standalone pediatric multi-speciality hospital chains in South India.

3. **Comprehensive perinatal care provider, with synergies between pediatric and obstetrics and gynaecology services**

   CRISIL research indicates that the pediatric healthcare model followed in the US is the benchmark medical care wherein the children hospitals admits pregnant women into their facilities, due to high-risk pregnancies, emphasizing the need for integrated mother child treatment. CRISIL also points out that in India, the number of such players is limited, and Rainbow model corresponds to the global one.

   Initially, when the hospital was conceptualized, the focus was only on pediatric care, but eventually the move was directed towards a perinatal ecosystem. Thus, the brand was leveraged to expand from the already well-established pediatrics department into gynaecology and obstetrics, making it a cost effective and efficient one stop health destination for families.

   The seamless and complimentary synergies between the two departments enable better utilisation of resources and infrastructure as well as help in brand strengthening and brand empowerment.

4. **Hub and Spoke business model**

   Amongst all the available models for hospital operations, the hub-and-spoke model has been proven to be the most efficient when it comes to Rainbow. This model has been implemented at Hyderabad and Bangalore. At the hub hospital, comprehensive outpatient and inpatient care is provided, with a focus on tertiary and quaternary care and at the spokes, secondary care in pediatric, obstetrics and gynaecology and emergency services are provided.

   With regards to the hub and spoke model, whenever a new region is explored, the first hospital in the region becomes the hub. When newer centres are added in the region, they act as spoke centres, and during the initial phase, the hub centres incur cash losses. Post that phase, the spoke centres achieve operational break even relatively faster, as compared to the hub centres. With this gamut of strategies of growth and expansion, the group as a whole, has been able to deliver profits persistently over the past years.

5. **Power to attract, train and retain high-caliber medical professionals**

   One of the major challenges in any industry is the lack of appropriate man power. For hospitals, trained medical professionals are the pillars of sustenance. The existence of well-trained doctors, nurses and their team is critical, and it depends on sourcing, training and retaining them. Factors such as reputed brand, offering highly professional and rewarding work environment, time to time training for self-development and overall alluring career opportunity assist Rainbow in this endeavour.

   The doctor engagement model employed lets the specialist doctors work full time, in the hospitals – full time exclusive model with retainership. Most of the doctors have no private or home clinics and are completely associated with Rainbow, with a night on-call commitment as well. Because of this model, the specialists are available 24x7 on a rotation basis, which is very crucial for pediatrics, neo-natal and obstetrics, resulting in smooth and flawless health care facility. This also provides stability in the career of the medical professionals, leading to a high doctor retention rate. The doctors work together in speciality teams and not independently or in silos, resulting in better outcomes.

   Rainbow is also recognized by DNB as an examination and training centre for offering training in pediatrics, neonatology, pediatric intensive care, pediatric sub-specialties, obstetrics and gynaecology. The candidates trained under this course are then absorbed into the specialist team, thus making it easier for the hospital to mould the candidates in the desired way.

   Rainbow also provides an excellent academic environment with scope for research. It helps publishes significant number of research papers in medical journals both nationally and internationally.

Rainbow also has stock ownership plans (ESOP) for doctors, as a part of their compensation package. Around 100 plus doctors own 16% equity in the company.

6. **Robust growth, operational and financial performance**

   We have consistently delivered strong operational and financial performance through strong patient volumes, cost efficiency and diversified revenue streams across medical specialties. We have achieved growth coupled with healthy profitability in markets with significant underserved healthcare demand and delivering quality healthcare services at affordable prices, which in turn drives patient volumes.

7. **Experienced senior management team with strong institutional shareholder support**

   People with processes run organizations. Senior management becoming more activists and interventionists, are going beyond the dimension of their standard functions. At Rainbow too, a highly experienced and involved senior management team has been the contributory factor to a strong past performance and will be so for the future strategical growth plan. Exclusive focus on patient care along with impeccable corporate governance policies is the backbone of Rainbow's operations. The senior management team comprises of stalwarts in the field of pediatric medicine, with international training and/or experiences, strong clinical expertise, with the ability to frame medical protocols, setting up standards for governance and quality assurance and control systems and with valuable managerial experiences.

WEAKNESS

1. We are dependent on our medical professionals and our business and financial results could be impacted if we are not able to attract and retain such medical professionals. Skilled medical manpower is a humongous challenge for India. Talented doctors, nurses, and technicians are forever in demand and can be poached by the competition. Paying a disproportionate amount of salary/professional fees can dent the profitability of the hospital in the long run. We engage doctors primarily on a consultancy service contract basis and there is no assurance that our doctors will not prematurely terminate their agreements.
2. If we fail to manage our growth or implement our growth strategies (which include expansion into new geographies), our business, financial condition and results of operations may suffer.
3. We operate in a regulated industry, and compliance with applicable safety, health, environmental, labor and other regulations, or failure to obtain or renew approvals, licenses, registrations and permits, may adversely affect our business, results of operations and cash flows. Further, adverse regulatory changes in the healthcare industry could also adversely affect our business, results of operations and cash flows.
4. We face intense competition from other healthcare service providers. If we are unable to compete effectively, our business, results of operations and cash flows may be materially and adversely affected.
5. We are exposed to legal claims and regulatory actions arising from the provision of healthcare services and may be subject to liabilities arising from claims of malpractice and medical negligence which could materially and adversely affect our reputation and prospects
6. We are dependent on a number of key personnel, including our Promoters and senior management, and the loss of or our inability to attract or retain such persons could adversely affect our business, financial condition, results of operations and cash flows.

OPPORTUNITIES

Digital revolution:

Upgradation of HIS to strengthen backend operations.

We are implementing new age CRM software for enhanced customer engagement and superior customer experience New Rainbow Mobile APP and redesigned user friendly website shall be made available.

We have developed a detailed digital strategy with the goal of enabling us to provide customized healthcare services for our target customers as well as to digitize processes to significantly improve the in-hospital customer experience. As we operate in children's and women's care, our customers include young independent professionals who are technology savvy, and we believe we have a unique opportunity to build a deep lasting relationship with such customers spanning from conception to adolescence through digital initiatives. We aim to establish a robust customer facing digital architecture which will provide customers with instant access to our services as well as seamless patient experience enhanced by digital technologies and AI-enabled clinical and information support.

Our "New Rainbow Mobile APP" mobile application is one of the core pillars of our digital strategy. The application enables patients to, among other things, book appointments, make payments, order drugs for home delivery, download investigation reports and receive alerts on essential services. We are 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 us with insight into patient needs. We have also launched an AI-powered "Chatbot" tool that allows our patients to easily engage with us on our website and via WhatsApp.

We have implemented 25 automated processes to automate manual functions such as daily and monthly MIS reporting, vendor payments and procurement ordering, which we believe have resulted in a substantial improvement in process efficiency and reduction in human intervention. We intend to continue investing in and implementing the infrastructure and technology, including RPA and AL tools, necessary to perform more technology-enabled operating procedures in our hospitals and that will enable our doctors and nurses to provide healthcare with greater accuracy and efficiency. For example, we have commissioned the development of a strategic and operational data warehouse which, through the use of data analytics and AI technologies, will enhance our decision-making processes across our business.

Underserved paediatric speciality segment and markets:

Huge potential exists across India for providing quality paediatric healthcare. Rainbow Hospitals have demonstrated their capabilities in successfully running profitable hospitals in such cities. Going forward, we would be further expanding our footprints replicating our model in the underserved markets.

THREATS

Intense Competition:

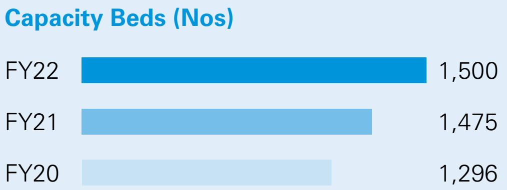
The Paediatric Healthcare space has seen new interest from many large corporates as well as private equity players in addition to the nursing homes and home clinics of paediatricians. The majority of the new hospitals by new entrants are in already overcrowded markets and this has led to undercutting of prices and will lead to potential unfair trade practices. These can affect the profitability of established players in the short run. In the long run, however trusted players with strong brand equity will continue to prosper.

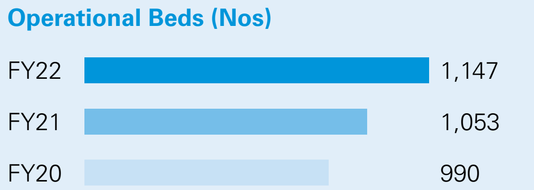
Government regulations:

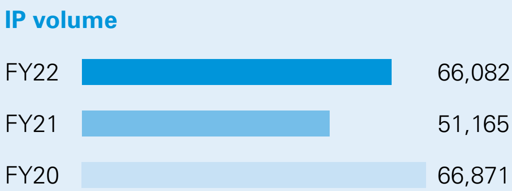
GST implementation and increased GST rate had an adverse impact on operating margins as hospitals could not utilize the input GST credit. Added to this, the pricing caps on key drugs and consumables have dented margins. The danger of further regulations will continue to be a threat to the healthcare sector.

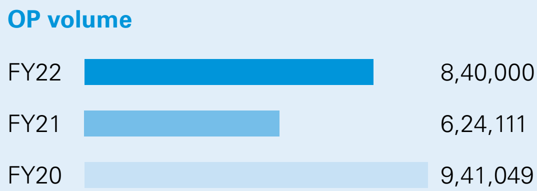
REVIEW OF OPERATIONS:

The covid-19 pandemic has affected business operations during the financial year 2020-21 as children were largely confined to homes owing to the lock-down and other restrictions in place. This had an adverse impact on hospital revenues, profitability, and cash flows. However, obstetrics services have done well. Despite continuing challenges, the Company has recovered well in the financial year 2021-22 and displayed marked improvement in operating and financial performance compared to last financial year.

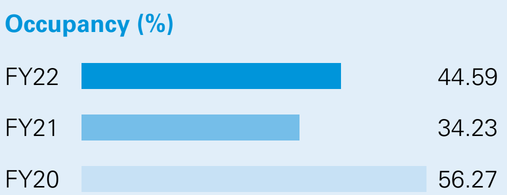


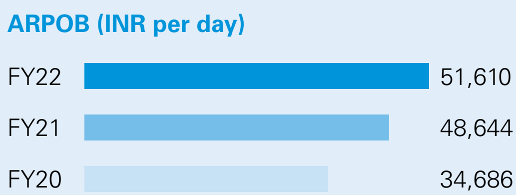


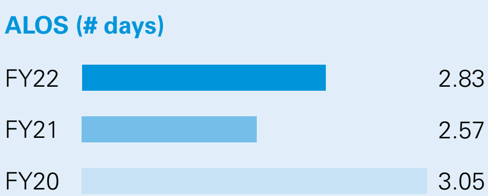




Delivery volume in FY22 : 12,603. Delivery volume in FY21 : 12,150



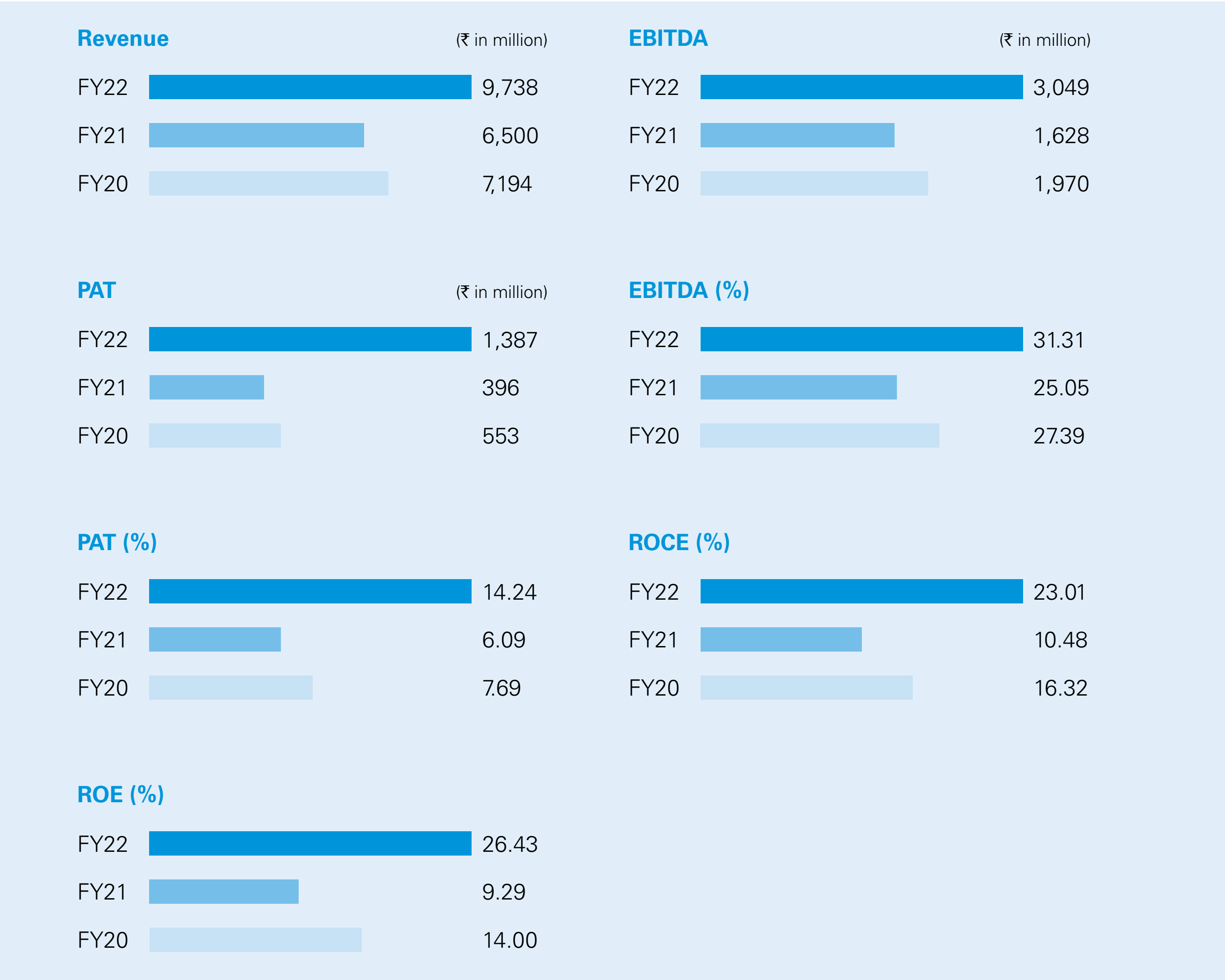




FINANCIAL HIGHLIGHTS

(₹ in million)

	FY 22	FY 21	YoY Growth
Revenue from operations	9,738	6,500	50%
EBITDA	3,049	1,628	87%
EBIDTA %	31.31%	25.05%	626 bps
PAT	1,387	396	250%
PAT%	14.24%	6.09%	815 bps



Revenues

Operating revenue stood at ₹ 9,738 million in FY22, as against ₹ 6,500 million in FY21, with an increase of 50%. This increase is primarily attributable to increase in inpatient volumes by 29% and outpatient volumes by 35% in Fiscal Year 2022 compared to Fiscal Year 2021. Increase in revenue is also driven by case mix improvement

Significant Factors contributing to the growth in revenues are stated in table below and discussed at length -

	FY 22	FY 21	Growth
In-patient (IP) volume	66,082	51,165	29%
Out-patient (OP) volume	840,000	624,111	35%
Delivery volume	12,603	12,150	4%
ARPOB (₹ Per day)	51,610	48,644	6%
ALOS (# days)	2.83	2.57	10%

Other income primarily consists of interest income, dividend and other income which increased 84.6% from ₹ 102.63 million to ₹ 189.37 million. The increase is contributed interest & dividend income of ₹ 29.9 million.

EXPENSES

Our total expenses increased by ₹ 2,007 million or by 33% from ₹ 6,046 million in Fiscal Year 2021 to ₹ 8,053 million in Fiscal Year 2022. Increase in total expenses is majorly due to increase in cost of medical consumables and pharmacy items by ₹ 915 million, increase in employee benefits by ₹ 140 million and other expenses by ₹ 762 million which is in line with revenue increase.

Medical consumables and pharmacy items:

Purchase of medical consumables and pharmaceutical items represents procurement of medical consumables, pharmaceuticals and other items for the provision of healthcare services and related GST, customs duty (for imported medicines), other government taxes and freight charges. These items costed ₹ 1,947 million in FY22 and ₹ 1,033 million in FY21 representing 20% and 15.9% of revenues respectively. The increase is attributable to increase in the price of medical consumables and pharmacy items and COVID-19 consumables, PPEs owing to the increased demand for such items. COVID-19 vaccination cost amounted to 38% of total pharmaceuticals and medical consumables cost for such period.

Employee benefits expense:

Salaries and benefits expense of ₹ 1,161 mn in FY22 increased by 13.7% to ₹ 1,021 in FY21. The increase in employee benefits expenses were driven by increases in the average salary of our employees on account of the increments and the head count compared to FY 2020-21. Employee benefits expense as a percentage of our total revenue declined from 15.7% in Fiscal Year 2021 to 12.1% in Fiscal 2022.

Finance costs:

Finance cost comprise of interest on NCDs at 9.5% and interest on lease liabilities under Ind AS 116. The financial costs increased to ₹ 532 million in FY22 during 2021, compared to ₹ 441 million in FY21. The increase of 20.7% is largely due interest expense on new lease liabilities created during the year for upcoming hospitals.

Depreciation and amortization:

Depreciation and amortization included depreciation on PPE, amortization on intangibles and Depreciation of right-of-use assets. The depreciation and amortization expense increased to ₹ 833 million from ₹ 733 million due to increase in depreciation on right to use assets and full year impact of depreciation on assets capitalised in mid-FY21.

Other expenses:

Other expenses grew by 27.0% to ₹ 3,581 million in FY22 from ₹ 2,819 in FY21.

Professional fees to doctors increased due to growth in business to ₹ 2,038 million in FY22 as against ₹ 1,595 million in FY21. However, as a percentage of operating revenue professional fees reduced from 24.5% of operating revenue during FY21 to 20.9% in FY22. The professional fees are paid on a variable basis and are dependent on the volume of business at our hospitals (as the professional fee is calculated based on the volume of patients attended to by the relevant doctor).

Other factors that contributed to increase in other expenses include Business promotion, Contract wages, Canteen expenses, Power and fuel, etc.

Income tax expense:

Income tax expense increased to ₹ 487 million in FY22 from ₹ 161 million in FY21 with an effective tax rate of 26%.

Key Financial Ratios

Overall improvement in operating results led to better key financial ratios as tabulated below-

	Unit	FY22	FY21	Change %	Reason
Liquidity ratios					
Current ratio	#	2.62	1.72	52.33%	This ratio has increased from 1.72 in March 2021 to 2.62 in March 2022 mainly due to increase in bank deposits (with original maturity more than 3 months but less than 12 months) and current investments.
Inventory Turnover Ratio	Days	15.63	7.92	97.35%	This ratio has increased from 7.92 in March 2021 to 15.63 in March 2022 mainly due to mainly due to purchase of covid vaccines.
Trade Receivables turnover ratio	Days	23.08	14.79	56.09%	This ratio has increased from 14.79 in March 2021 to 23.08 in March 2022 due to increase in the credit sales, overall increase in business volumes and better collection efficiency.

	Unit	FY22	FY21	Change %	Reason
Leverage ratios					
Debt Equity ratio	#	0.07	0.11	-36.36%	This ratio has decreased from 0.11 in March 2021 to 0.07 in March 2022 mainly due to repayment of borrowings and increase in equity on account of increase in share capital.
Debt Service Coverage Ratio	Times	4.46	2.68	66.42%	This ratio has increased from 2.68 in March 2021 to 4.46 in March 2022 mainly due to increase in earnings available for debt service on account of increase in profit during the year.
Interest coverage ratio	Times	68.5	33.73	103.08%	This ratio has increased from 68.5 in March 2021 to 33.73 in March 2022 mainly due to increase in earnings available for interest service on account of increase in profit during the year.
Profitability ratios					
Operating profit margin	%	31.31%	25.05%	24.99%	This ratio has increased from 25.05% in March 2021 to 31.31% in March 2022 mainly due to increase in EBITDA which was on account of increase in revenue from operations.
Net profit ratio	%	14.24%	6.09%	133.83%	This ratio has increased from 6.09 % in March 2021 to 14.24% in March 2022 mainly due to increase in Net profit after taxes which was on account of increase in revenue from operations.
Return on Equity Ratio	%	26.43%	9.29%	184.50%	This ratio has increased from 9.29% in March 2021 to 26.43% in March 2022 on account of increase in Net profit after taxes due to increase in business volumes, which was offset by increase in share capital.
Return on Capital employed	%	23.01%	10.48%	119.56%	This ratio has increased from 10.48 % in March 2021 to 23.01 % in March 2022 mainly due to increase in earnings which was on account of increase in revenue from operations.

CAPITAL EXPENDITURE

Gross block increased by ₹ 702 million to ₹ 6,324 million as at 31 March 22 and the increase primarily represents new block added in Vikrampuri unit, Vijayawada IVF facility and other medical equipment.

INITIAL PUBLIC OFFERING (IPO)

Subsequent to the year end, the Company has completed Initial Public Offering of 29,168,579 Equity Shares of face value of ₹ 10 each at an issue price of ₹ 542 per equity share (including a share premium of ₹ 532 per equity share, with a discount of ₹ 20 per share to eligible employees), aggregating to ₹ 15,808 million comprising a fresh issue of 5,167,679 Equity Shares aggregating to ₹ 2,800 million and an offer for sale of 24,000,900 Equity shares aggregating to ₹ 13,008 million. The equity shares of the Company were listed on NSE and BSE with effect from 10 May 2022.

Internal Control Systems & their Adequacy:

RMCL has a well-defined framework of internal controls commensurate to its operations' size and complexity. A dedicated Internal Audit team reports directly to the Audit Committee, comprising four independent directors overseeing the Internal Audit function. The scope, authority, and responsibility of the Internal Audit function are governed by the Internal Audit Charter, which is approved by the Audit Committee. For every financial year, the Internal Audit function develops a risk-based internal audit plan to assess control design and its operating effectiveness, which is reviewed and approved by the Audit Committee. The audit team reviews the scope defined and reports on the status of internal controls, quarterly to the Audit Committee. Before being placed to the committee, the functional heads review the internal audit reports, and corresponding action plans for each of the observations are provided with clearly defined timelines and a responsibility matrix. In its quarterly meetings, the audit committee reviews the report in detail and approves it. Further, a separate team of Auditors is deployed across all the group hospitals for concurrent review of daily transactions. A monthly review of the outcome of concurrent audit is conducted at the unit level, and a summary of the outcome is updated to management regularly. Additionally, the audit team also does annual testing of the Entity Level Controls (ELCs), and Internal Controls over Financial Reporting (ICoFR) controls laid down by the management, to provide assurance to the committee on the status of internal controls. All the pending observations are tracked through a comprehensive Action Taken Report (ATR) format, which is presented to the audit committee along with the audit reports every quarter.

RISK MANAGEMENT:

Rainbow has a comprehensive risk management system covering various aspects of the business, such as strategy, operations, financial reporting, and compliance. This is based on Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework.

The Risk Management Committee (RMC) of the board comprises three directors (including two independent directors) who oversee and monitor the Risk Management exercise. Risk Management exercise is governed by a Risk Management Charter, which is approved by the RMC. Further, we have also developed a detailed Risk management process, which is reviewed and approved by RMC. The risk management and monitoring mechanisms that we have in place include process walkthroughs, concurrent auditing, and risk-based internal audit reviews, with a focus on identifying, rectifying, and monitoring the effectiveness of our internal process and any possible process gaps. Our assessment of risk is based on risk perception surveys, business environment scanning, and inputs from various internal and external stakeholders. As a part of the Risk Management exercise, the function heads prepare their comprehensive Risk Registers, which form the base documents for this exercise. Risks are given a scoring basis on the following three factors:

1. Probability of occurrence of risks
2. The severity of impact, on the occurrence of such risks
3. Detectability of such risks

Operational Leaders are responsible for highlighting new risks they come across, which are then updated in the risk register. Against each risk noted in the register, a detailed root cause, risk indicator list, and MIS monitoring mechanism are defined. A mitigation plan for the same is prepared and monitored through periodic reporting to the RMC. A monthly MIS on the risks identified in the register is prepared and presented to the management. The RMC members in the scheduled meetings take note of the status of risks and give necessary suggestions, which are actioned upon. Updates to the RMC are provided on a half-yearly basis