BUY Rainbow Children's Medicare

Seasonally-impacted quarter; robust outlook

Healthcare ▸ Result Update ▸ **July 28, 2025**

CMP (Rs): 1,540 | TP (Rs): 1,680

Impacted by seasonality, Rainbow's Q1FY26 revenue grew 7% YoY, missing street's expectations/our estimate by 2%/1%, respectively. Operating performance, however, was satisfactory, with EBITDA growing 11% YoY (margin expansion of 100bps) as losses in new units contracted (Sarjapur unit reached breakeven in Q1). Given the robust ramp-up in new hospitals (OBD+20%; ARPOB+10%) and traction in new verticals (eg: IVF), we expect revenue/EBITDA CAGR of 15%/17% over FY25-28E, in line with the management's upbeat guidance for a high-teen revenue CAGR. Improving profitability at new units should help offset the expected drag from Rainbow's staggered bed expansion plans over FY25-28E; this would result in a flattish margin, in our view. The strong net-cash balance sheet (Jun-25: ~Rs7.4bn), robust cash conversion, and healthy return ratios provide comfort on valuations. Factoring in the Q1 miss, we cut FY27/28E revenue by 3%/2%, respectively, while maintaining BUY. Our Jun-26E TP is increased by 5% to Rs1,680 on rollover, based on 28x Jun-27E pre-IndAS EV/EBITDA (27x earlier).

Mature portfolio continues to drag the performance

Rainbow reported topline growth of 7% YoY (Rs3.5bn), led by ARPP growth of 8% YoY, though partially offset by a 2% decline in patient volumes. EBITDA stood at Rs1bn (up 11% YoY), with margin expansion of 100bps YoY on new facilities breaking even and an improving case mix (higher-value quaternary care). At mature facilities, revenue rose 2% YoY, while OBD declined 11%; ARPOB rose 15% YoY, with occupancy at 44%. At new facilities, revenue grew 31% YoY, OBD/ARPOB rose 20%/10% YoY, with occupancy at 32%. The Q1 EBITDA margin (pre-IndAS) came in at 23%, up by 110bps YoY. PAT came in at Rs535mn, up 35% YoY. The payor mix has been stable at 48%/52% for cash/insurance patients (flat YoY). Q1 capex was Rs415mn.

Earnings call KTAs

1) The management has guided for revenue growth in the range of late-teens to 20% in FY26, on a likely healthy trend in the next 3 quarters after a seasonally soft Q1. 2) The company is confident of sustaining its ARPP growth trajectory of 6-7%, driven by insurance hikes, with ALOS guided at 2.6-2.8. 3) **Project timelines**: Rainbow largely retained its bed addition timeline – 100 beds at Rajahmundry by Aug-end (delayed from Q1); Electronic City (90 beds), and Hennur (60 beds) to be commissioned by end-Q2; Coimbatore hospital (130 beds) is expected to be commissioned by end-FY27, while the 2 upcoming hospitals in the NCR (450 beds in total) are likely to be commissioned in Sep-27. 4) The company is in advanced discussions regarding signing a 150-bed hospital in Pune, entailing capex of Rs8mn per bed (asset-light; expected to be commissioned in 2.5 years). It is also exploring expansion in the Northeast. 5) The management highlighted that Q1 performance was impacted by seasonality in pediatrics (medical cases), while tertiary and quaternary care segments were steady, resulting in higher ARPP. 6) The recently acquired Prashanthi Hospital in Warangal will be consolidated in Q2. 7) Competitive intensity in birthing remains elevated, but the management has not seen any major competitors, thus gaining market share.

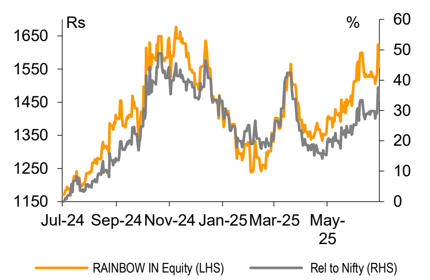
Target Price – 12M	Mar-26
Change in TP (%)	**5.0**
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	9.1

Stock Data	**RAINBOW IN**
52-week High (Rs)	1,710
52-week Low (Rs)	1,129
Shares outstanding (mn)	101.6
Market-cap (Rs bn)	156
Market-cap (USD mn)	1,805
Net-debt, FY26E (Rs mn)	(6,919.9)
ADTV-3M (mn shares)	0
ADTV-3M (Rs mn)	310.1
ADTV-3M (USD mn)	3.6
Free float (%)	50.1
Nifty-50	24,680.9
INR/USD	86.7
Shareholding,Jun-25	
Promoters (%)	49.8
FPIs/MFs (%)	23.6/15.4

Price Performance

(%)	**1M**	**3M**	**12M**
Absolute	1.8	11.3	31.7
Rel. to Nifty	5.7	9.7	32.5

1-Year share price trend (Rs)



Rainbow Children's Medicare: Financial Snapshot (Consolidated)

Y/E March (Rs mn)	**FY24**	**FY25**	**FY26E**	**FY27E**	**FY28E**
Revenue	12,969	15,159	17,691	20,204	23,313
EBITDA	4,289	4,899	5,808	6,571	7,654
Adj. PAT	2,170	2,434	3,161	3,550	4,364
Adj. EPS (Rs)	21.4	24.0	31.1	35.0	43.0
EBITDA margin (%)	33.1	32.3	32.8	32.5	32.8
EBITDA growth (%)	8.2	14.2	18.6	13.1	16.5
Adj. EPS growth (%)	2.9	12.2	29.9	12.3	22.9
RoE (%)	18.7	17.9	19.6	18.5	19.1
RoIC (%)	43.5	35.8	37.9	40.5	44.7
P/E (x)	72.0	64.2	49.4	44.0	35.8
EV/EBITDA (x)	35.3	30.9	26.0	23.0	19.8
P/B (x)	12.4	10.6	8.9	7.5	6.3
FCFF yield (%)	0.4	0.4	1.9	2.3	1.8

Source: Company, Emkay Research

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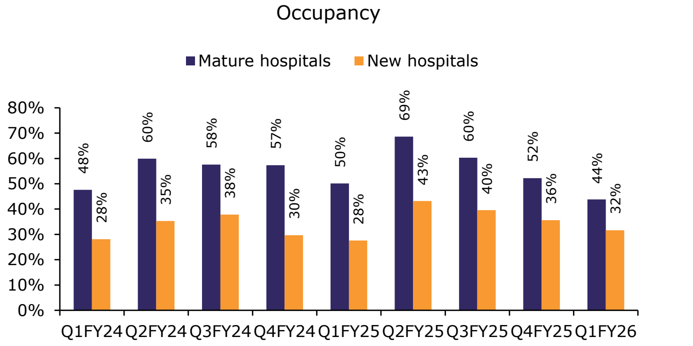
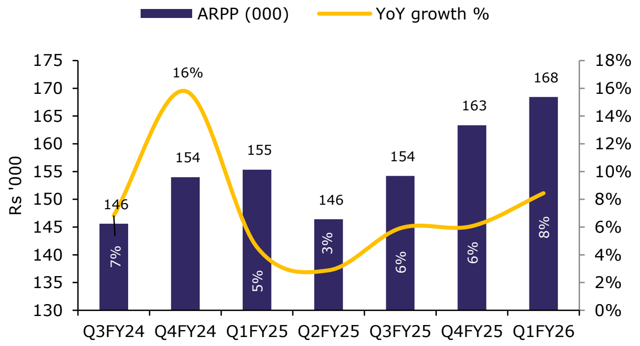
Story in Charts

Exhibit 1: Impacted by seasonality, occupancy was muted for mature hospitals ...



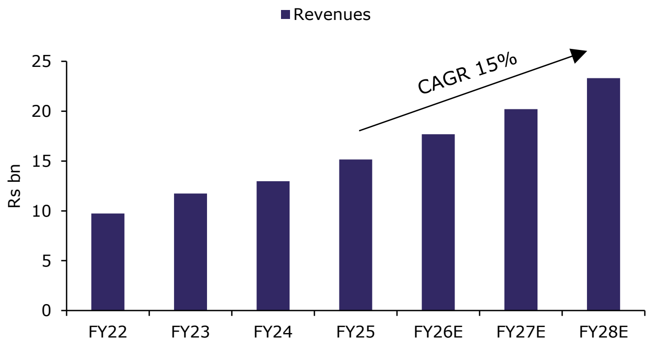
Source: Company, Emkay Research

Exhibit 2: ...while ARPP grew 8% YoY on the back of the high-value case mix (quaternary care)



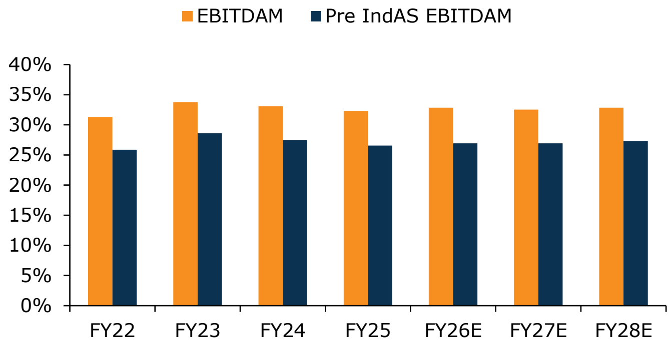
Source: Company, Emkay Research

Exhibit 3: We expect revenue CAGR of 15% over FY25-28E...



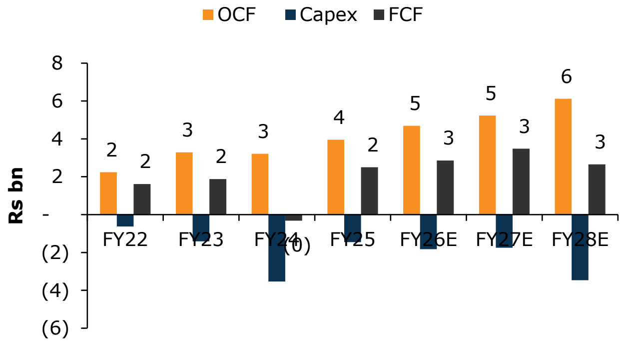
Source: Company, Emkay Research

Exhibit 4: ...and EBITDA CAGR of 17%



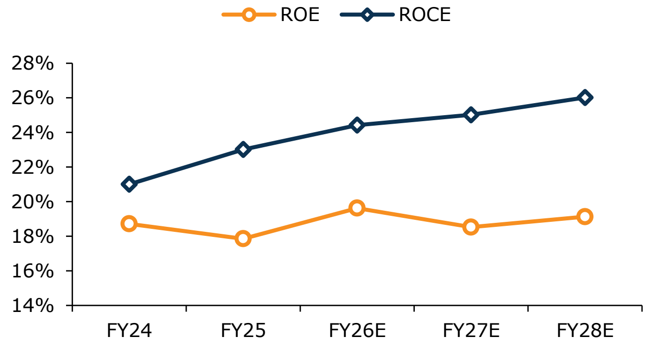
Source: Company, Emkay Research

Exhibit 5: We expect cash conversion to remain robust



Source: Company, Emkay Research

Exhibit 6: Return ratios to remain steady despite bed expansion



Source: Company, Emkay Research

Exhibit 7: Summary of quarterly financials

Particulars (Rs mn)	Q1FY25	Q4FY25	Q1FY26	YoY	QoQ
Net sales	**3,302**	**3,701**	**3,529**	7%	-5%
Operating Expenses	**(2,365)**	**(2,554)**	**(2,493)**	**5%**	**-2%**
Operating Expenses	425	470	475	12%	1%
Employee Costs	1,340	1,488	1,434	7%	-4%
SG&A expenses	601	596	584	-3%	-2%
EBITDA	**937**	**1,147**	**1,036**	**11%**	**-10%**
Margins	28.4%	31.0%	29.4%		
Depreciation	(341)	(342)	(342)	0%	0%
EBIT	**596**	**806**	**694**	**17%**	**-14%**
Other Income	119	145	200	68%	38%
Interest	(182)	(181)	(181)	0%	0%
Minority Interest	2	2	3	57%	40%
PBT	**532**	**768**	**711**	**34%**	**-7%**
Tax	(136)	(204)	(176)	29%	-14%
PAT	**395**	**563**	**535**	**35%**	**-5%**
Adj. PAT	395	563	535	35%	-5%
EPS (Rs)	**3.89**	**5.55**	**5.27**	**35%**	**-5%**
(%)	**Q1FY25**	**Q4FY25**	**Q1FY26**	**YoY (bps)**	**QoQ (bps)**
Gross margin	87.1%	87.3%	86.5%	-59	-75
EBITDA	28.4%	31.0%	29.4%	98	-164
EBIT	18.0%	21.8%	19.7%	163	-209
EBT	16.1%	20.7%	20.1%	404	-60
PAT	12.0%	15.2%	15.2%	319	-6
Effective Tax rate	25.6%	26.6%	24.7%	-91	-188

Source: Company, Emkay Research

Exhibit 8: Actuals vs estimates (Q1FY26)

(Rs mn)	Actual	Emkay Estimate	Consensus	Variation	
			(Bloomberg)	Emkay	Consensus
Revenue	3,529	3,557	3,615	-1%	-2%
EBITDA	1,036	1,001	1,059	3%	-2%
EBITDA margin	*29%*	*28%*	*29%*	*120 bps*	*7 bps*
PAT	535	468	486	14%	10%

Source: Company, Emkay Research

Exhibit 9: Change in estimates

Particulars (Rs mn)	FY26E			FY27E			FY28E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue	17,457	17,691	1.3%	20,824	20,204	-3.0%	23,845	23,313	-2.2%
EBITDA	5,651	5,808	2.8%	6,808	6,571	-3.5%	7,921	7,654	-3.4%
EBITDA margin	32.4%	32.8%	46 bps	32.7%	32.5%	-17 bps	33.2%	32.8%	-39 bps
EBITDA Pre IndAS	4,631	4,763	2.8%	5,642	5,440	-3.6%	6,609	6,371	-3.6%
PAT	3,000	3,161	5.4%	3,673	3,550	-3.3%	4,497	4,364	-2.9%

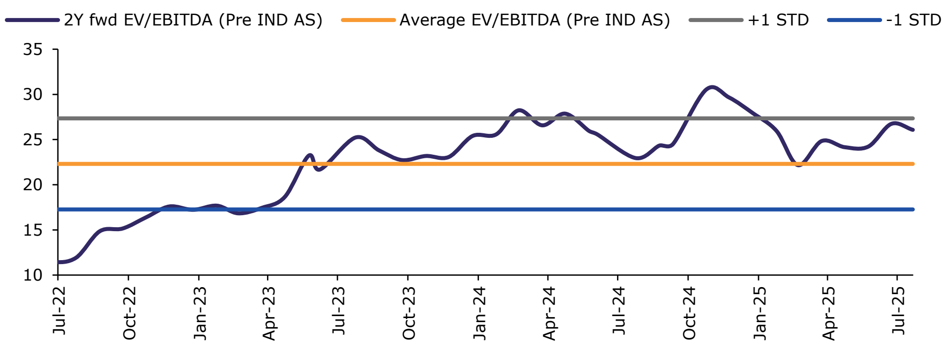
Source: Company, Emkay Research

Exhibit 10: We value Rainbow at Rs1,680

Target Price calculation	Rs
Jun-27E Pre-IndAS EBITDA (Rs mn)	5,673
Applied EV/EBITDA (x)	28
Target EV (Rs mn)	161,106
FY27E Net cash (Rs mn)	(7,893)
Target Mcap (Rs mn)	168,998
Shares outstanding (mn)	101.5
Target Price (Rs)	**1,680**

Source: Company, Emkay Research

Exhibit 11: Rainbow is trading at its long-term 2YF EV/EBITDA (Pre-IndAS)



Source: Bloomberg, Emkay Research

Rainbow Children's Medicare: Consolidated Financials and Valuations

Profit & Loss

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	**12,969**	**15,159**	**17,691**	**20,204**	**23,313**
Revenue growth (%)	10.5	16.9	16.7	14.2	15.4
EBITDA	**4,289**	**4,899**	**5,808**	**6,571**	**7,654**
EBITDA growth (%)	8.2	14.2	18.6	13.1	16.5
Depreciation & Amortization	1,121	1,384	1,537	1,963	2,231
EBIT	**3,168**	**3,514**	**4,271**	**4,609**	**5,422**
EBIT growth (%)	3.5	10.9	21.5	7.9	17.7
Other operating income	-	-	-	-	-
Other income	371	510	657	756	945
Financial expense	591	725	646	556	459
PBT	**2,948**	**3,300**	**4,282**	**4,808**	**5,908**
Extraordinary items	0	0	0	0	0
Taxes	765	858	1,113	1,250	1,536
Minority interest	(13)	(8)	(8)	(8)	(8)
Income from JV/Associates	0	0	0	0	0
Reported PAT	**2,170**	**2,434**	**3,161**	**3,550**	**4,364**
PAT growth (%)	2.9	12.2	29.9	12.3	22.9
Adjusted PAT	**2,170**	**2,434**	**3,161**	**3,550**	**4,364**
Diluted EPS (Rs)	**21.4**	**24.0**	**31.1**	**35.0**	**43.0**
Diluted EPS growth (%)	2.9	12.2	29.9	12.3	22.9
DPS (Rs)	**3.0**	**3.0**	**3.0**	**3.0**	**3.0**
Dividend payout (%)	**14.2**	**12.5**	**9.6**	**8.6**	**7.0**
EBITDA margin (%)	33.1	32.3	32.8	32.5	32.8
EBIT margin (%)	24.4	23.2	24.1	22.8	23.3
Effective tax rate (%)	26.0	26.0	26.0	26.0	26.0
NOPLAT (pre-IndAS)	**2,346**	**2,601**	**3,161**	**3,411**	**4,013**
Shares outstanding (mn)	102	102	102	102	102

Source: Company, Emkay Research

Balance Sheet

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	1,015	1,016	1,016	1,016	1,016
Reserves & Surplus	11,574	13,666	16,523	19,769	23,829
Net worth	**12,589**	**14,682**	**17,538**	**20,783**	**24,843**
Minority interests	60	68	68	68	68
Non-current liab. & prov.	(260)	(296)	(296)	(296)	(296)
Total debt	**0**	**0**	**0**	**0**	**0**
Total liabilities & equity	**20,042**	**22,090**	**24,116**	**26,121**	**29,208**
Net tangible fixed assets	6,387	8,133	8,424	8,211	9,446
Net intangible assets	102	110	110	110	110
Net ROU assets	6,102	5,745	7,548	8,701	9,992
Capital WIP	138	278	278	278	278
Goodwill	0	0	0	0	0
Investments [JV/Associates]	2,333	884	884	884	884
Cash & equivalents	**5,126**	**6,995**	**6,920**	**7,893**	**8,459**
Current assets (ex-cash)	1,256	1,329	1,493	1,792	1,978
Current Liab. & Prov.	1,402	1,384	1,541	1,747	1,939
NWC (ex-cash)	**(146)**	**(54)**	**(48)**	**45**	**39**
Total assets	**20,042**	**22,090**	**24,116**	**26,121**	**29,208**
Net debt	(5,126)	(6,995)	(6,920)	(7,893)	(8,459)
Capital employed	20,042	22,090	24,116	26,121	29,208
Invested capital	**6,343**	**8,189**	**8,486**	**8,366**	**9,595**
BVPS (Rs)	124.0	144.6	172.8	204.8	244.8
Net Debt/Equity (x)	(0.4)	(0.5)	(0.4)	(0.4)	(0.3)
Net Debt/EBITDA (x)	(1.2)	(1.4)	(1.2)	(1.2)	(1.1)
Interest coverage (x)	6.0	5.6	7.6	9.6	13.9
RoCE (%)	**30.4**	**29.4**	**30.5**	**27.9**	**27.8**

Source: Company, Emkay Research

Cash flows

Y/E March (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	2,577	2,790	3,625	4,052	4,963
Others (non-cash items)	-	-	-	-	-
Taxes paid	(765)	(858)	(1,113)	(1,250)	(1,536)
Change in NWC	(300)	(127)	(6)	(93)	6
Operating cash flow	**3,214**	**3,957**	**4,689**	**5,229**	**6,124**
Capital expenditure	(2,650)	(3,278)	(1,829)	(1,749)	(3,466)
Acquisition of business	742	1,449	0	0	0
Interest & dividend income	(308)	(305)	(305)	(305)	(305)
Investing cash flow	**(2,265)**	**(2,678)**	**(2,974)**	**(2,146)**	**(3,813)**
Equity raised/(repaid)	0	1	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	289	339	(2,633)	(2,394)	(2,264)
Interest paid	(591)	(725)	(646)	(556)	(459)
Dividend paid (incl tax)	(308)	(305)	(305)	(305)	(305)
Others	(120)	(149)	(839)	(1,249)	(981)
Financing cash flow	**(729)**	**(838)**	**(4,422)**	**(4,504)**	**(4,009)**
Net chg in Cash	221	441	(2,707)	(1,421)	(1,698)
OCF	3,214	3,957	4,689	5,229	6,124
Adj. OCF (w/o NWC chg.)	3,514	4,083	4,695	5,322	6,118
FCFF	564	678	2,860	3,480	2,658
FCFE	(334)	(351)	1,910	2,619	1,894
OCF/EBITDA (%)	74.9	80.8	80.7	79.6	80.0
FCFE/PAT (%)	(15.4)	(14.4)	60.4	73.8	43.4
FCFF/NOPLAT (%)	**24.0**	**26.1**	**90.5**	**102.0**	**66.2**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E March	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	72.0	64.2	49.4	44.0	35.8
EV/CE(x)	12.0	10.2	8.6	7.3	6.1
P/B (x)	12.4	10.6	8.9	7.5	6.3
EV/Sales (x)	11.7	10.0	8.5	7.5	6.5
EV/EBITDA (x)	35.3	30.9	26.0	23.0	19.8
EV/EBIT(x)	47.7	43.0	35.4	32.8	27.9
EV/IC (x)	23.8	18.5	17.8	18.1	15.8
FCFF yield (%)	0.4	0.4	1.9	2.3	1.8
FCFE yield (%)	(0.2)	(0.2)	1.2	1.7	1.2
Dividend yield (%)	0.2	0.2	0.2	0.2	0.2
DuPont-RoE split					
Net profit margin (%)	16.7	16.1	17.9	17.6	18.7
Total asset turnover (x)	1.0	1.0	1.1	1.2	1.3
Assets/Equity (x)	1.1	1.1	1.0	0.9	0.8
RoE (%)	**18.7**	**17.9**	**19.6**	**18.5**	**19.1**
DuPont-RoIC					
NOPLAT margin (%)	18.1	17.2	17.9	16.9	17.2
IC turnover (x)	2.4	2.1	2.1	2.4	2.6
RoIC (%)	**43.5**	**35.8**	**37.9**	**40.5**	**44.7**
Operating metrics					
Core NWC days	(4.1)	(1.3)	(1.0)	0.8	0.6
Total NWC days	**(4.1)**	**(1.3)**	**(1.0)**	**0.8**	**0.6**
Fixed asset turnover	1.5	1.3	1.3	1.4	1.4
Opex-to-revenue (%)	54.2	54.8	54.1	54.5	54.2

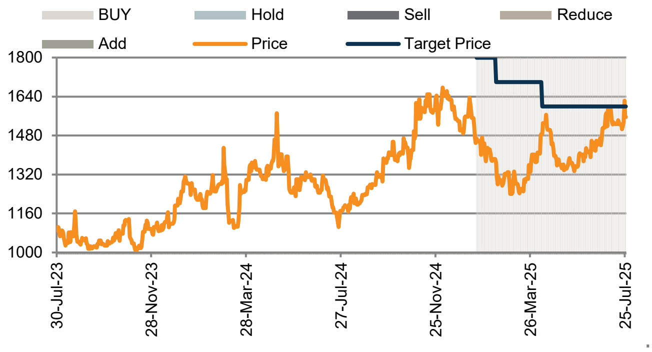
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
09-Jul-25	1,526	1,600	Buy	Anshul Agrawal
26-May-25	1,358	1,600	Buy	Anshul Agrawal
10-Apr-25	1,486	1,600	Buy	Anshul Agrawal
10-Feb-25	1,370	1,700	Buy	Anshul Agrawal
16-Jan-25	1,468	1,800	Buy	Anshul Agrawal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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