

Birla Pacific Medspa Ltd.

June 20, 2011

Price Band	: ₹10 – 11 per share
Minimum Bid Lot Size	: 500 Equity Shares
Maximum Bid Lot Size	: 18,000 Equity Shares
IPO opens during	: June 20 – 23, 2011
Book Running Lead Manager	: Arihant Capital Markets Limited
To list on	: BSE
IPO Grading	: 2 / 5 (Brickworks Ratings)
Market Cap post-listing	: ₹116.84Cr or \$26mn (based on the cap price)
Market Cap of Free Float	: ₹83.38Cr or \$18.6mn (based on the cap price)

IPO of 59.25mn equity shares of ₹10each, aggregating to ₹65.18Cr or \$14.5mn (at the cap price).

Shareholding Pattern

	Pre-Issue		Post-Issue	
	No. of Shares	% Holding	No. of Shares	% Holding
Promoter	3,04,18,500	64.8%	3,04,18,500	28.6%
Pre IPO Investors	1,65,47,718	35.2%	1,65,47,718	15.6%
QIBs excl. Mutual Funds	0	0.0%	2,81,43,750	26.5%
Mutual Funds	0	0.0%	14,81,250	1.4%
Non-Institutional Investors	0	0.0%	88,87,545	8.4%
Public	0	0.0%	2,07,37,455	19.5%
Total	4,69,66,218	100.0%	10,62,16,218	100.0%

Executive Summary

- Birla Pacific Medspa Ltd. (BPML) operates Spas in India and abroad for beauty and healthcare treatment and presently operates a med spa centres under the brand name “EVOLVE”. A med spa or medical spa is a hybrid between a medical clinic and a day spa and operates under the supervision of medical doctor.
- Evolve Med Spa, offers comprehensive treatments in the areas of Cosmetic Dermatology, Cosmetic Surgery and Advanced Dentistry. It also offers a range of spa services – wet & dry under its wellness initiative.
- The health industry has emerged as one of the most challenging sectors as well as one of the largest service sector industries in India with estimated revenue of \$35bn; it constitutes 5.2% of India’s GDP and employs 4mn people.
- The healthcare industry in the country, which comprises hospital and allied sectors, is projected to grow 23% per annum to touch \$77bn by 2012 from the current estimated size of \$35bn, according to a Yes Bank and an industry body report published in November 2009.

Our View

Though, the company is in fast growing sector in India, the current poor financial performance as well as the negative growth of group companies we advise the investors to skip the issue.

Company Background

Birla Pacific Medspa Ltd. (BPML) was incorporated in July 2008 with the name “Birla Pacific Medspa Private Ltd.” Later, the company went public in July 2010 and changed its name to “Birla Pacific Medpsa Ltd”.

BPML was incorporated pursuant to a Joint Venture Agreement between Birla Wellness & Healthcare Pvt. Ltd., Pacific Healthcare Holdings Limited and Dr. Abhijit Desai. Birla Wellness & Healthcare Pvt Ltd. is part of the Yash Birla Group which is a leading industrial conglomerate in India.

Pacific Healthcare Holdings Ltd, (PHH) a Singapore Stock Exchange listed company was incorporated in 2001 under the laws of Singapore and through its affiliates, related companies and subsidiaries has a network of clinics and specialist centers offering a wide range of healthcare services, which include specialist medical and dental services, wellness and day surgery centres and nursing home facilities.

Promoters and Management

Mr. Yashovardhan Birla is the Chairman of BPML. He is also the Chairman of the diversified Yash Birla Group for well over 20 years. He took over the reins of the group in 1990 and has successfully steered the group to its present position of eminence. He has been credited with the integration of various group companies, infusing a strong sense of global vision and taking an integrated approach to the group.

Dr William Chong is a Director of BPML and is the Executive Director & CEO of Pacific Health Holdings Ltd. He charts the corporate direction and business strategies for Pacific Healthcare in Singapore. In Pacific Healthcare he leads a team of more than 100 healthcare professionals with operations in Singapore, China and Hong Kong. He is also a practicing dental surgeon in Singapore at Pacific Healthcare Specialist Centre.

Dr. Abhijit Desai is the Managing Director of the company. He is a Dermatologist from Mumbai and had been very closely associated with the Pacific Healthcare Singapore for over a decade. He put his unique concept of having various fields of cosmetic medicines like dermatology, surgery and dentistry into reality by setting up a comprehensive cosmetic medical and dental center with Pacific Healthcare in India.

Industry Overview

The Health Industry

The health industry has emerged as one of the most challenging sectors as well as one of the largest service sector industries in India with estimated revenue of \$35bn; it constitutes 5.2% of India's GDP and employs 4mn people. The Indian health industry is expected to grow at 15% per annum to \$78.6bn, reaching 6.1% of GDP and employing 9mn people by 2012. Recognizing the significant potential and challenges in the health sector, the government has prioritized it in the Eleventh Five Year Plan. The private sector plays a significant role by contributing 4.3% of GDP and 80% share of healthcare provision. However, deficiencies persist with respect to access, affordability, efficiency, quality and effectiveness, despite the high level of overall private and public expenditure on health. In order to be comparable with the healthcare parameters of other developing countries, India's healthcare sector faces many challenges. For example, to reach a ratio of two beds per 1000 population by 2025, an additional 177bn beds will be required which will need a total investment of \$86bn. There is an acute shortage of doctors, nurses, technicians and healthcare administrators and an additional 0.7mn doctors are needed to reach a doctor population ratio of 1:1000 by 2025. Although the health insurance sector is projected to grow to \$3.8bn in collected premiums by 2012 from the annual collected premium of \$711mn in 2006, there is a dismal health insurance penetration rate; at present only 2% of the total population is insured.

For the desired changes and a healthy growth of the healthcare sector, a well-defined partnership between the government and the private sector is essential.

Growth in the Healthcare Sector

The healthcare industry in the country, which comprises hospital and allied sectors, is projected to grow 23% per annum to touch \$77bn by 2012 from the current estimated size of \$35bn, according to a Yes Bank and an industry body report published in November 2009. According to the report, diagnostics would contribute \$2.5bn to the healthcare industry by 2012. An increasing number of public and private healthcare facilities are expected to propel demand for the industry, accounting for another \$6.7bn in this period. The sector has registered a growth of 9.3% between 2000-2009, comparable to the sectoral growth rate of other emerging economies such as China, Brazil and Mexico. According to the report, the growth in the sector would be driven by healthcare facilities, private and public sector, medical diagnostic and pathlabs and the medical insurance sector.

Wellness Industry in India

Wellness is closely linked to the overall achievement of an individual's needs. Wellness is driven by five main needs – Biological, Esteem, Aesthetic, Cognitive and Self-Actualization. These individual needs are being influenced by changing and evolving lifestyle trends. Wellness is linked to a selected set of clearly identified and explicit needs like

- Keeping Fit
- Protect skin
- Exercise and de-stressing
- Peace of mind

Wellness as an offering has been prevalent since the ancient times in India. The pioneering work of our ancestors in the areas of ayurveda and traditional medicine stand as leading lights for many users and practitioners to this date. What has changed since then has been the dedication that entrepreneurs, practitioners and regulators in this space have shown to kick-start the organized industry in India.

The wellness industry is classified into seven core segments within different products and services, such as

- Allopathy
- Alternative therapies
- Beauty
- Counseling
- Fitness and slimming
- Nutrition
- Rejuvenation.

Growth of Wellness Industry in India

Wellness, Exploring the Untapped Potential, a FICCI-Ernst & Young (EY) initiative studied this upcoming industry very closely in terms of growth and potential for future.

The wellness industry comprises two segments

- Wellness services
- Wellness products

At the end of 2008, the wellness services market stood at Rs11,000Cr and the wellness products industry was around Rs16,000Cr. With an overall estimated CAGR (compound annual growth rate) of over 20% till 2012. The FICCI-EY wellness report, has adopted a forward looking approach to identifying key opportunities, challenges and potential solutions that an emerging industry sector might face in its journey through the phase of growth. The report identifies an ecosystem consisting of users, providers and facilitators that are referred to as the wellness economy. Each of the stakeholders within the wellness economy plays a critical part in growing the wellness space.

The Indian Wellness Service market is expected to be buoyant and has the potential to sustain a CAGR of approximately 30-35% for the next 5 years, says the FICCI-E&Y study report. This growth is also evident by robust

performance of Indian companies. The growth is aided by large and growing addressable retail consumer base. The attractiveness is also due to high presence of unorganized players leading to the need for corporate and organized brands. Across segments, on an average more than 50% of the market is unorganized and highly segmented with several small and regional players. Further India's 'Wellness' space is still at a nascent stage as compared to international markets thus representing significant opportunities to grow this market. The growth in the 'Wellness' space is expected to be fuelled by the large and growing addressable retail consumer class. This class of population is also backed by a strong growth in their disposable income resulting in increasing household consumption.

Business Operations

BPML's main object is to open a Spa in India and abroad for beauty and healthcare treatment and presently operates a med spa centres under the brand name "EVOLVE". A med spa or medical spa is a hybrid between a medical clinic and a day spa and operates under the supervision of medical doctor. Each of its med spa centres is doctor-led and is designed to offer scientific makeover solutions for enhancing one's beauty. BPML has a panel of doctors who are qualified and experienced in their respective specialties. Using the state-of-the-art equipments at its centres, it provide patient-centric solutions for safe treatments.

The services provided by BPML will be cosmetic dermatology, cosmetic surgery and advanced dentistry, spa services, health and fitness resorts, dieticians, yoga ashrams, saloons, hair and skin treatments, sanatorium centers, and to manufacture soaps consumables, oils, medicines, body sprays and scents, creams, powders, natural and artificial skin and hair conditioners. However presently the company is not carrying on the business of manufacturing soaps, oils etc.

BPML is setting up a chain of medical wellness centres throughout India focusing on cosmetic surgery, cosmetic dermatology and dentistry which will operate under the brand name of EVOLVE. Centres in Mumbai at Walkeshwar, Andheri, Bandra, Worli and Borivali are already operational. In addition to above company-operated centres, The company intends to discontinue the practice of opening Franchisee Centres. However the two Franchisee centres operating at Thane and Chennai will continue to operate till the date of conclusion of their agreement. i.e January, 2014 and June, 2012 respectively.

Evolve had been chosen as the Smile, Makeover and Wellness Partner by the prestigious beauty pageant Pantaloons Femina Miss India 2009.

BPML's business model is drawn from the experience of the company's erstwhile JV partner PHH, who are one of the leading healthcare providers based in Singapore and cater to clientele from several countries. PHH is an integrated healthcare provider as well as operation of nursing homes, day surgery centres and a compounding pharmacy.

Services

Evolve Med Spa, offers comprehensive treatments in the areas of Cosmetic Dermatology, Cosmetic Surgery and Advanced Dentistry. It also offers a range of spa services – wet & dry under its wellness initiative. Some of the standard services offered by Evolve are as under:

Cosmetic Dermatology:

a. Botox & Filler: Botox is an U.S. FDA approved option to temporarily reduce frown lines, and wrinkles and it lasts for 4-6 months. Fillers are used to plump thin lips, enhance shallow contours, soften facial creases and smoothen the furrows of aging and lasts for 8-12 months.

b. Laser Hair Reduction: Laser hair removal is a gentle and effective way to permanently reduce unwanted hair from virtually any area of the body.

c. Skin Tightening: Laser skin tightening is a minimally invasive, non-surgical process that uses an infrared light source (alaser) to tighten skin by heating the collagen under the skin's surface, causing the skin to contract (tighten).

d. Skin Rejuvenation: Skin rejuvenation is a treatment to resurface a person's skin, or to improve the texture, clarity and overall appearance of skin. Skin rejuvenation can be achieved in a number of ways, ranging from laser, light and other energy-based treatments to chemical peels and other non-ablative methods.

e. Microdermabrasion: Microdermabrasion is a technique for removing the topmost layer of skin leaving it supple and vibrant. The Diamond Tome TM Wand removes this layer of skin by gently exfoliating the skin with natural diamond chips, while at the same time vacuuming the dead skin cells away in a sterile and controlled manner.

Cosmetic Surgery:

a. Liposuction: Lipolysis is breaking of the upper layer of the body fat with the help of ultra sonic rays, the next step is toning and tightening of the skin and reshaping of the body. In every sitting the patient loses at least 2 ½ inches overall in the full area covered, minimum of 6-8 sittings are required for this treatment.

b. Face Lift: Technically known as rhytidectomy, a facelift is a surgical procedure to improve visible signs of aging in the face and neck, such as sagging in the midface, deep creases below the lower eyelids, deep creases along the nose extending to the corner of the mouth, fat that has fallen or is displaced, loss of muscle tone in the lower face may create jowls, loose skin and excess fatty deposits under the chin and jaw can make even a person of normal weight appear to have a double chin.

c. Breast Augmentation & Reduction: Breast implant is a medical device used to enlarge the size of a woman's breasts. It is commonly done after breast feeding or for small breasts. Breast implants contain an outer silicone shell that contains a filler material, which provides the implant its size and shape. The filler material used in breast implants may be saline (salt water) or silicone.

d. Rhinoplasty: Rhinoplasty is a surgical procedure which is usually performed to improve the function and/or the appearance of a human nose. It is commonly called a "nose reshaping" or "nose job". It can be performed to meet aesthetic goals or for reconstructive purposes to correct trauma, birth defects or breathing problems.

e. Hair Transplant: Hair loss is primarily caused by a combination of aging, a change in hormones, and a family history of baldness. As a rule, the earlier hair loss begins, the more severe the baldness will become. Hair transplantation involves removing small pieces of hair-bearing scalp grafts from a donor site and relocating them to a bald or thinning area. Grafts differ by size and shape.

f. I-Lipo: iLip is the latest technique in laser lipolysis offering a way to achieve inch loss and body contouring with no pain, no needles and no down time. I-lipo is a low level laser diode system and therefore is painless and completely safe.

Advanced Dentistry:

a. Dental Implants: Complete dentures are fabricated when the patient has all of his or her teeth missing. It generally takes 4 or sometimes more appointments to make a set of standard dentures.

b. Pediatric Dentistry: Paediatric dentistry is an age defined speciality that provides both primary and comprehensive preventive and therapeutic oral health care for infant and children through adolescence, including those with special health care needs.

c. Single sitting root canal: The purpose of root canal treatment is to create an end result where the tissues that surround a tooth's root will maintain a healthy status despite the fact that the tooth's nerve has undergone degenerative changes.

Strengths

In the Indian Medspa market, there are several small and medium sized players offering services in the cosmetic and beauty treatments. But most of them, often managed by one or two doctors, specialize in any one particular service say cosmetic dermatology or cosmetic dentistry or any other activity such as slimming/weight loss and other cosmetic surgeries. On the other hand, Evolve is a completely doctor led approach starting from counseling to post evaluation from the respective field –offering everything under one roof. Some of the competitive strengths of BPML’s are as follows:

- One-stop centre offering the latest in medical related beauty treatments under cosmetic surgery, cosmetic dermatology and dentistry – one of the first entrants in India offering everything under one roof.
- Strong international reputation and experience of PHH, the company’s erstwhile JV partner, who have conveyed their continued support and no objection to continue usage of the words “Pacific” in the name of the company.
- In-house panel of qualified and specialist doctors to facilitate the company’s doctor-led approach for treatment.
- Wide range of specialized treatments in cosmetic surgery, dermatology and dentistry as compared with competition.
- Competitive pricing with cost leadership.
- Association of Pacific Healthcare, Singapore, one of the Asia’s leading healthcare providers, the company’s erstwhile JV partner.

Objects of the Issue

The objects of the issue are as follows:

- Establishment of new stores across India
- Brand Promotion
- Additional working capital requirements
- Public Issue Expenses

Utilisation of Net Proceeds

Particulars	Amount (₹ Cr)
Capital Expenditure for Setting up 55 centers across the country	49.50
Working Capital Requirements	0.70
Brand Promotion	6.00
Issue Expenses	6.50
Contingencies	1.24
Preliminary & preoperative expenses	1.24
TOTAL	65.18

Investment Risks

(Please refer to the RHP for a complete listing of risk factors)

- Limited track record and loss making company
- One of the promoter’s group companies namely Birla Bombay Pvt. Ltd appears in the RBI Defaulters List.
- Medical equipment industry is dynamic and very competitive globally.
- The company’s expansion plan is at a preliminary stage. If it does not able to commence operations under current expansion plan as expected, there may be a cost or time overrun, which may adversely affect the company’s project cost and the results of its operations.

Restated Profit & Loss Statements

(₹Cr)

Particulars	14 ^{1/2} Months ended 30.09.2009	6 Months ended 31.03. 2010	9 Months ended 31.12.2010
INCOME			
Sales:			
of products manufactured	-	-	-
of products traded in	1.70	1.53	1.65
Total	1.70	1.53	1.65
Other Income	-	-	0.03
Increase/(Decrease) in Stock	0.06	0.04	0.03
Total Income	1.77	1.56	1.70
EXPENDITURE			
Purchase / Raw material consumed	0.33	0.26	0.17
Staff Costs	0.48	0.52	0.67
Administration expenses	4.90	3.47	3.83
Selling & Distribution expenses	0.63	0.58	0.70
Finance Charges	0.01	0.01	0.01
Total Expenditure	6.34	4.85	5.38
Net Profit before Taxes items & Extraordinary	-4.58	-3.28	-3.68
Taxation	0.00	0.00	0.00
Less: Provision for current tax (including Wealth tax)	-	-	-
Less: Provision for deferred tax (net)	-	-	-
Less : Provision for Fringe Benefit tax	0.00	-	-
Effect of adjustments on tax	-	-	-
Net Profit before Extraordinary items	-4.58	-3.28	-3.68
Add: Extraordinary items	-	-	-
Net Profit/ (loss) after tax	-4.58	-3.28	-3.68

Restated Balance Sheets

(₹Cr)

As at,	30.09.2009	31.03.2010	31.12.2010
Fixed Assets :			
Gross Block	6.12	6.49	7.73
Less: Accumulated Depreciation	-0.84	-1.34	-2.11
Net Block	5.28	5.16	5.62
Less: Revaluation Reserve	-	-	-
Net Block after Revaluation Reserve	5.28	5.16	5.62
Capital work in Progress	0.08	0.37	-
Total	5.36	5.53	5.62
Investments	-	-	-
Current Assets , Loans & Advances:			
Inventories	0.07	0.10	0.13
Sundry Debtors	0.09	0.09	0.10
Cash & Bank Balances	1.25	0.24	0.78
Loans & Advances	2.23	12.39	35.58
Total	3.64	12.82	36.59
Total Assets	8.99	18.35	42.21
Less: Liabilities & Provisions:			
Secured Loans	-	-	-
Unsecured Loans	-	-	0.10
Net Deferred Tax liabilities	-	-	-
Current Liabilities & provisions	8.02	15.74	4.64
Total	8.02	15.74	4.74
Net worth	0.97	2.61	37.47
Represented By:	0.00	0.00	0.00
Share Capital	5.55	10.47	44.72
Share Premium	-	-	4.29
Profit & Loss Account debit balance	-4.58	-7.86	-11.54
Net worth	0.97	2.61	37.47

Keynote Capitals Ltd.

Member

Stock Exchange, Mumbai (INB 230930539)
National Stock Exchange of India Ltd. (INB 010930556)
Over the Counter Exchange of India Ltd. (INB 200930535)
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

Registered Office

4th Floor, Balmer Lawrie Building,
5, J. N. Heredia Marg,
Ballard Estate, Mumbai 400 001.
Tel Nos. 022-2269 4322 / 24 / 25

Disclaimer

This report by Keynote Capitals Ltd. is purely for information purpose and is based on the Red Herring Prospectus for the public issue of the company under coverage, published financial statements, public information and the recent analyst meeting of the company. Neither the information nor any opinion expressed in this report constitutes an offer, or an invitation to make an offer, to buy or sell the securities mentioned herein. Directors, officers, clients or employees of Keynote Capitals or its affiliates may have positions in securities covered in this report or in related investments. Keynote Capitals Ltd may also have proprietary trading positions in securities covered in this report or in related investments. Opinions and estimates mentioned herein, if any, are based on workings of Keynote Capitals only. Investors in the issue are advised to read the RHP carefully before subscribing to the issue. Keynote Capitals Ltd. or any of its directors, officers or employees shall not in any way be responsible for any loss arising from the use of this report. Investors are advised to apply their own judgment before acting on the contents of this report.