
Rationale for Birla Pacific Medspa Limited's IPO Grading

IPO Grading

BWR IPO Grade 2 (Below Average Fundamentals)

Brickwork Ratings (BWR) has assigned **BWR IPO Grade 2** to the proposed IPO of Birla Pacific Medspa Ltd. Brickwork Ratings' BWR IPO Grade 2 indicates below average fundamentals for the issue in relation to the other listed equity securities in India. BWR assigns IPO grading on a scale of IPO Grade 5 to IPO Grade 1, with Grade 5 signifying strong fundamentals and Grade 1 signifies poor fundamentals of the issue in relation to the other listed equity securities in India.

The grading factors positive prospects for the wellness industry, Birla Pacific Medspa's Management's substantial domain knowledge and experience in the wellness industry and the reputation of Pacific Healthcare Holdings Ltd. The grading is constrained by delays in project implementation and poor financial performance of the Yash Birla Group of companies raising IPO funds in the past, Birla Pacific Medspa's negative cash flows and losses, short history of two years of operations, full funding from IPO proceeds and project implementation spread over three years. In absence of funding or appraisal by a bank or term lending institution, the project cost is estimated by the company management.

Company Profile

Birla Pacific Medspa Ltd belongs to the Yash Birla Group (YBG) of companies. The company was incorporated on July 15, 2008 pursuant to JV agreement between Birla Wellness & Healthcare Pvt Ltd, Pacific Healthcare Holdings Ltd (PHH) Singapore and Dr Abhijeet Desai. As per JV the shareholding pattern was to be such that at any point of time shareholding of Yash Birla Group and that of PHH taken together with Dr Abhijit Desai would always be equal.

In June 2010 the Joint Venture between PHH and Yash Birla group was automatically terminated as shareholding of PHH went below 25% (which was trigger point for automatic termination of JV agreement) to 17.82%

Company opened its first Med Spa in November 2008 at Prabhadevi, so operationally company is running since past 2 years. Birla Pacific Medspa presently operate healthcare centers under the brand name EVOLVE. Presently, the company is operating 5 centers at Walkeshwar, Bandra, Andheri, Atria Mall at Worli and Borivali at Mumbai and one center on franchise basis at Thane. Currently Evolve is managed by Dr. Abhijit Desai, a set of qualified & internationally trained doctors and a team of other professionals. Birla Pacific Medspa is positioned like a one stop centre, offering a range of scientific makeover solutions to enhance beauty. They use state-of-the-art equipment, and the internationally qualified panel of doctors to offer the latest and safest treatments. All consultations & procedures are carried out with utmost privacy, in pleasant, comfortable and specially designed rooms. Company has approximately 41 employees including 5 centers and corporate office.

Services Offered:

Dermatology	Cosmetic Surgery	Dentistry
Laser hair Reduction	Body Contouring	Cosmetic Dentistry
Laser skin tightening	Face Countering	Dental Implants
Pigmentation	Face/necklift Surgery	Gum Specialists
Skin Rejuvenation	Hair Transplant	Invisible Braces
Treatment of Acne and Acne scars with laser	Neck Surgery	Root Canals
Mole/warts/skin tags removal	Liposuction	Scaling & Polishing
Botox	Rhinoplasty	Teeth Alignment
Fillers	Surgery for eyelids	Teeth Whitening
	Tummy Tuck	Restorative Dentistry
	Reconstructive Surgeries	Paedodontis

Management

Birla Pacific Med Spa is promoted by Mr. Yashovardhan Birla, aged 43 years is the Chairman of the Company. He is the Chairman of the diversified Yash Birla Group for well over 20 years. He

is the Great-grandson of late Shri R D Birla. Mr. Yashovardhan Birla is M.Com, LLB by academic qualifications. He took over the reins of the group in 1990 at a very young age of 23 years.

Directors other than promoters of company:

Dr William Chong, aged 47 years is a Director of the Company. He is the Executive Director & CEO of Pacific Health Holdings Ltd. He charts the corporate direction and business strategies for Pacific Healthcare in Singapore. He is also a practicing dental surgeon in Singapore at Pacific Healthcare Specialist Centre.

Dr. Abhijit Desai, aged 36 years is the Managing Director of the company. He is a leading Dermatologist from Mumbai. He holds a MBBS and DVD degree. He had been very closely associated with the Pacific Healthcare Singapore for over a decade. He is an active member of various national and international organizations.

Mr. P.V.R .Murthy aged 58 years, is a Chartered Accountant and MBA by academic qualification. He has over 3 decades of experience in the finance sector. He has worked as a part of the Top Management with various companies over a span of 16 years in the capacity of Managing Director, Director, CEO and Advisor prior to joining the Yash Birla group of Companies. At YBG, he is looking after financial resource management of all the group companies, business restructuring, disinvestments, Merger & Acquisitions, MIS, Management, Internal and Statutory Audit, Integrated ERP systems across group companies, corporate governance, investments in new projects, expansion/ diversification of the existing group companies etc.

Mr. Mohandas Shenoy Adige, aged 66 years, is an Independent Director and has 40 years of cross functional experience in metal industry with exposure to various functional areas including techno-commercial areas of project management. He is a member of regional council of Confederation of Indian Industry (CII). He has retired as the Managing Director of Nagpur Power and Industries Limited.

Mr. Vijay Agarwal, aged 53 years is an Independent Director and is a Practicing Chartered Accountant for the last 27 years, specializing in Corporate Advisory, Tax and Audit field.

Mr. Anoj Menon, aged 37 years is a B.Com & LLB, working as a partner at M/s. Desai & Diwanji, Advocates & Solicitors. He is an Independent Director of the Company. He is a Corporate Lawyer specializing in Mergers and Acquisitions, Private Equity Investment, Private Investment in Public Equity, Corporate Advisory, Foreign Direct Investment, Capital Markets, SEBI Laws, Drug Laws and Dispute Resolution. Mr. Menon has an experience of over 14 years in this field.

Mr. Rajesh Shah, aged 57 years is a Chartered Accountant by qualification and is an Independent Director. He is partner with M/s. A.J. Shah & Co. Chartered Accountants since 1979. He is also member in various and has 29 years of experience in Tax and Audit field.

Mr. Tushar Dey, aged 47 years is a qualified Company Secretary and also holds a Bachelors degree in General Law. He has over 20 years of experience in handling Legal and Secretarial matters. He specializes in Mergers & Acquisitions, IPO, GDR/ADRs, Corporate Legal, Corporate Governance, Civil and Criminal Litigation, IPR, FEMA and Labour Law matters.

Objectives of the Issue:

Birla Pacific Medspa is planning to establish 55 new outlets in next 3 years and venture into Tier I and Tier II cities in India and is therefore raising equity funds:

- To meet the capital expenditure towards establishing 55 outlets of Evolve Medspa across various cities & places
- To meet expenditure towards brand promotion
- To meet working capital requirements for running the above centres
- To meet issue related expenses
- To enlist the company's shares on BSE

Breakup of total project cost

USE of IPO Proceeds		
Sl No	Particulars	Amount (in Cr)
1	Capital Expenditure for Setting up 55 centers across the country	49.50
2	Working Capital Requirement	0.70
3	Brand Promotion	6.00
4	Issue expenses	6.50
5	Contingencies	1.24
6	Preliminary & preoperative exp	1.24
	Total	~65.17

Estimated CAPEX of establishing one Evolve Centre	
Particulars	(in Cr)
Expenses on Interior Designing @ Rs. 2000 per sq feet on an estimated average area of around 2000 sq.feet	0.40
Medical Equipments	0.44
Others (Rent Deposits for 6 months)	0.06
Total	0.90

Source: DRHP

Project Funding:

To meet the funding requirements, Birla Pacific Medspa Ltd. plans to raise approximately Rs. 65 Crores (including Issue Expenses) by way of Initial Public Offering of equity shares with Face Value of Rs.10/- at a premium to be decided later. Birla Medspa is coming out with public issue where they will have to allot QIB's minimum 50% of offer to public, failing which full subscription money has to be refunded as per SEBI ICDR regulation 26(2)(a)(i). 100% percent of the project funding is from the Public issue proceeds. Promoters are not participating in the public issue but company's post issue equity capital of 20% will be locked in by promoters for 3 years which equates to promoter contribution as per SEBI guidelines

There is a Share Cum Warrant Subscription (SWS) Agreement has been entered between the Company & its promoters and Bennett, Coleman & Co. Ltd. dated March 24, 2009 and as amended by agreement dated May 5, 2010. BCCL has exercised its Warrants on 21st July 2010. In this, 10,714,285 shares were issued to Bennett, Coleman and Co. Ltd. at Rs. 14 per share for an aggregate amount of Rs. 15 Cr.

The Promoters, together with the Promoter Group own approximately 62.99% of the paid-up capital of the company. The total post-issue dilution (including Promoter Group and Selling Shareholders) is expected to be in the range of 25 – 30 %. The fund requirements and funding plans have not been appraised by any bank / financial institution. The deployment of funds for the projects is therefore, entirely at the discretion of the company. However, Birla Pacific Medspa has constituted a Project Monitoring Committee, comprising of 2 independent directors and the Managing Director of the company to monitor the utilization of IPO proceeds.

Corporate Governance:

Birla Pacific Medspa Limited is compliant with the provisions of Clause 49 of the Listing Agreement. The Board of Directors of the Company has an optimum combination of executive and non-executive Directors. Accordingly not less than one third of the Board of Directors comprises of non-executive and independent Directors. All the Independent Directors were appointed in June 2010.

Audit Committee is constituted by Board of Directors in their meeting held on 8th June 2010 consisting of 4 directors. It is chaired by Mr. Rajesh Shah, an Independent Director. Out of other three directors, Mr. Vijay Agarwal and Mr. MS Adige are independent directors while Mr. PVR Murthy is a Non Independent director.

The Remuneration Committee was constituted on 8th June 2010 and all the members of this committee are Independent Directors - Mr. Rajesh Shah (Chairman), Mr. MS Adige and Mr. Vijay Agarwal. The Share Transfer and Investors Grievance Committee was also constituted on 8th June 2010 consisting of three directors – Mr. Anoj Menon (Chairman), Independent Director, Mr. MS Adige, Independent Director and Dr. Abhijit Desai, Non Independent Director. The Board members have expertise in different sectors which fit the company's needs.

The company had related party transactions to the tune of Rs.51.39 crores for the period ended 31st march 2010.

Industry Analysis

Birla Pacific Medspa Limited is a part of Indian Wellness and Health Care Industry. Wellness has been a booming industry in India and is projected to grow at annual rate of 30-35% by FICCI and EY. At the end of 2008, the wellness services market stood at Rs 11,000 crore and the wellness products industry was around Rs 16,000 crore. The overall CAGR (compound annual growth rate) is estimated to be over 20% till 2012. The wellness industry comprises seven core segments within different products and services:

- Allopathy
- Alternative therapies
- Beauty – The company operates in this segment
- Counseling
- Fitness & Slimming
- Nutrition
- Rejuvenation

South is much ahead in terms of indicative concentration for the organised wellness-based centers per household: 34.4 centers per 100,000 households, compared with 13.6 for the north, 12 for the west and 10.1 in the east. Alternate therapies are the most popular choice of people in southern India, while customers in north are inclined towards beauty. The maximum numbers of fitness and slimming centers are in the west.

On an average more than 50 percent of the market is unorganised and highly segmented with several small and regional players. While ayurveda and alternative treatments are predominantly unorganised, health foods and drinks and dietary supplements are more organised. Multiple international companies are entering the Indian market to cash in on the Wellness boom, thus further expanding the market.

Business Strategy

Birla Pacific Medspa Limited's business model is drawn from its erstwhile JV partner Pacific Healthcare who are leading healthcare provider (especially in wellness segment) based in

Singapore and cater to clientele from several countries. The company is setting up a chain of medical wellness centers throughout India, from 5 centers currently, planning to expand to 55 centers in next 3 years and venture into Tier I and Tier II cities in India. Birla Pacific Medspa is focusing on cosmetic surgery, cosmetic dermatology, dentistry and wellness packages for Face and Body through range of spa services – both wet & dry. All the services, right from counseling to post evaluation, are provided by qualified doctors and not mere technicians.

Currently the company has a panel of 12 doctors who offer their services as consultants on part-time basis at the EVOLVE centers. The panel comprises of specialists from the field of dental care, dermatology and cosmetic surgery. Also the cross referrals from these 12 specialist doctors enables cross selling of various EVOLVE services. Brand Evolve has been launched as a “one stop shop” for end to end makeover solutions. They have plans to develop corporate clientele by offering healthcare packages to their employees. The company is focusing on long term brand building using effective print and television vehicles coupled with strong experiential marketing program using below the line execution experts for participation in exhibitions, trade fairs, medical tourism fairs etc.

Financial Performance

The Company was incorporated in July 2008, therefore the first report on the financial information of the company for the period from July 15, 2008 to September 30, 2009 and second report for six months ended March 31, 2010 has been prepared.

The company's revenues grew by 116.08% on annualized basis in FY 10. The company's expenditure grew by 84.64% on annualized basis. The total staff cost increased by 165.11% in second reporting period mainly due to the increased number of staff members for newly opened centres. The company is in losses for the two accounting periods, however the loss has come down by 73% in the second reporting period on an annualized basis.

The return on net worth is negative for the financial period ended September 30, 2009 and period ended March 31, 2010 as the company has incurred losses for the said periods. Currently the company is debt free company therefore; the company has no interest expenses. The financial charges are mainly on account of bank charges.

The Company has negative Cash Flows from Operation (CFO) for the two accounting periods due to large working capital requirements. The cash flows from investing activities (CFI) are also negative for last two accounting periods due to significant capex towards generating fixed assets.

The Company also expects to utilize part of IPO proceeds (70 lacs) to fund their growing WC needs.

Profit and Loss Account		
Amount in Ruppes	For six months ended March 31, 2010	For the period ended Sept. 30 2009
Income		
Sales: of product traded in	15,287,391	17,047,471
Increase/ Decrease in Stock	358,571	628,324
Total Income	15,645,962	17,675,795
Expenditure		
Purchase/ Raw Material consumed	2,622,855	3,252,936
Staff Costs	5,234,296	4,771,459
Administration Expenses	34,735,331	49,044,780
Selling & Distribution Expenses	5,797,314	6,269,948
Finance Expenses	76,645	95,822
Total Expenditure	48,466,441	63,434,945
Profit before tax	(32,820,479)	(45,759,150)
Less: Provision for Fringe Benefit tax	-	(15,948)
Net Profit/ (loss) after Tax	(32,820,479)	(45,775,098)

Balance Sheet		
Amount in Rupees	For six months ended March 31, 2010	For the period ended Sept. 30 2009
Sources of Funds		
Share Capital	104,686,000	55,501,000
Profit & Loss Account (Debit Bal.)	(78,595,576)	(45,775,098)
TOTAL	26,090,424	9,725,902
Application of Funds		
Fixed Assets		
Gross Block	64,943,167	61,167,513
Less : Depreciation	(13,365,264)	(8,406,278)
Net Block	51,577,903	52,761,235
Capital Work in Progress	3,695,192	795,371
Investments	-	-
Current Assets, Loans and Advances		
Inventories	1,031,922	673,351
Sundry Debtors	921,612	875,319
Cash and Bank Balance	2,352,816	12,539,892
Loans and Advances	123,906,012	22,298,400
	128,212,362	36,386,962
Less: Current Liabilities and Provisions	157,395,034	80,217,666
Net Current Assets	(29,182,672)	(43,830,704)
TOTAL	26,090,424	9,725,902

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