

## **Ceylon Ayurveda (Pvt) Ltd**

on ***ABR***

July 2022

### POSSIBLE AREAS

- ✓ Business Combination
- ✓ Corporate governance requirements for listing
- ✓ Internal control weaknesses and developments
- ✓ Possible material misstatements can be included in the unaudited FS
- ✓ Accounting treatments on special items

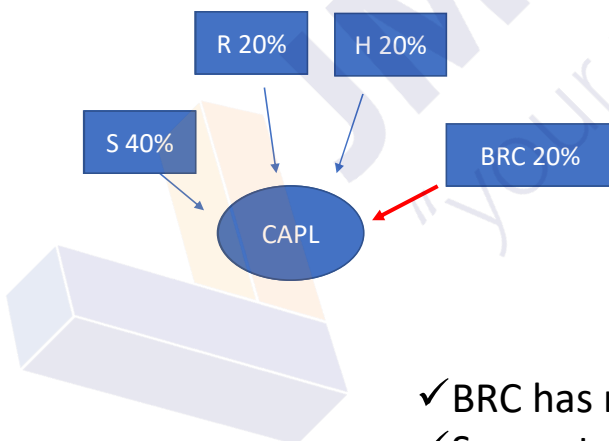
Shareholding Structure (8,000,000 shares at Rs. 12.50 per share)

Shareholders	Percentage holding as at 31 March 2022
Saman Herath	40%
Ruwan Herath	20%
Hansini Herath	20%
Blue-Rock Capital	20%
<b>Total</b>	<b>100%</b>

- ❑ The company hopes to seek a listing on the Diri Savi Board next year.

Blue-Rock Capital has intimated its intention to get CAPL listed on the Diri Savi Board in the next financial year, and Saman, the Chairman, has agreed to this.

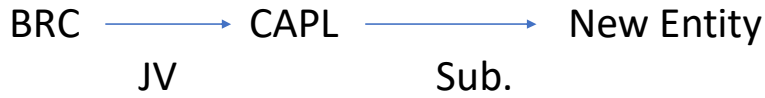
- ❑ Hansini has a master's degree in Marketing and handles Business Development and Overseas Expansion. Due to quality-related issues faced by the company and its overseas expansion it hopes to obtain the International Organisation for Standardisation (ISO) and Hazard Analysis Critical Control Points (HACCP) certifications.
- ❑ CAPL hopes to issue new shares to Blue-Rock Capital in the next financial year, which will lead to a dilution of the 80% currently owned by the family. These funds are expected to be used to increase the production capacity in order to meet the demands of the overseas expansion.



- ✓ BRC has not possess sheet in the board
- ✓ Seems to be not possessing significant influence
- ✓ May be recognized this investment in their books as a FA @ FVTOCI

- CAPL will issue 2.6mn new shares with the Joint control to BRC
  - CAPL will become a JV of BRC

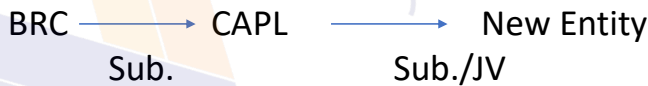
- Proceed from new share issue will use to acquire a foreign business



	before		New	after	
S	3,200,000	40%	-	3,200,000	30%
R	1,600,000	20%	-	1,600,000	15%
H	1,600,000	20%	-	1,600,000	15%
BRC	1,600,000	20%	2,666,667	4,266,667	40%
	8,000,000		2,666,667	10,666,667	

- CAPL will issue 4.8mn new shares with the control to BRC
    - CAPL will become a subsidiary of BRC
- Step Acquisition

- Proceed from new share issue will use to acquire a foreign business



	before		New	after	
S	3,200,000	40%	-	3,200,000	30%
R	1,600,000	20%	-	1,600,000	15%
H	1,600,000	20%	-	1,600,000	15%
BRC	1,600,000	20%	4,800,000	6,400,000	60%
	8,000,000		4,800,000	12,800,000	

## Product Portfolio and Business Development

### Main Product Categories of CAPL

- *Healthcare*  
Toothpaste, hair oils and health supplements
- *Pharmaceuticals*  
Mainly pain relief ayurvedic medicine
- *Herbal beauty products*  
Facial cleansers and toners, skin moisturisers, body wash
- *Essential oils*  
Nutmeg and clover oils
- *Beverages*  
Tea

Product wise revenue contribution is given below.

- Healthcare: 25%
- Pharmaceuticals: 15%
- Herbal beauty products: 20%
- Essential oils: 35%
- Beverages: 5%

### Raw Materials

The company uses many types of raw materials in its manufacturing process as follows.

- Extracts of natural ingredients
- Natural products
- Herbal materials
- Additives

Apart from the above, solvents, detergents, liquids and powder, and packing materials are also used.

## Capital Expenditure

Plans are also underway to open a few company-owned retail outlets in the Western Province as given below.

FY	No. of outlets
2022/23	2
2023/24	2
2024/25	3
2025/26	3
2026/27	3

The investment per outlet is expected to be Rs. 20 million.

The company currently lacks a proper branding and intellectual property rights (IPR) strategy. IPR is important as the company has invested in a state-of-the-art research centre.

CAPL is planning to purchase a software to automate the processes related to field and factory operations, as a manual system is currently used.

The total value of property, plant and equipment of the company increased from approximately Rs. 1.37 billion in FY 2020/21 to Rs. 1.85 billion in FY 2021/22. The increase in assets was mainly due to the construction of the Research & Development (R&D) Center. The main fixed asset items procured relate to the building, plant, lab equipment and tools. The current capacity of one of the existing factories was increased. A few obsolete plants and machinery were disposed of during FY 2021/22.

### Information Technology

CAPL is planning to procure a new enterprise resource planning (ERP) software to automate the whole operation. The CFO was keen on implementing robotics process automation and business intelligence in the company.

The company spends nearly 27% of its turnover on distribution expenses and the CFO wants to appoint a consultant to carry out a business process reengineering exercise to optimise costs in this area.

## Financing

The funding to build the R&D Center was obtained through bank borrowings. Total borrowings increased by nearly Rs. 440 million in FY 2021/22 compared to the previous financial year.

These bank loans were obtained for a period of 5 years at the rate of 7% per annum for the first 3 years, and at a variable rate for the 4<sup>th</sup> and 5<sup>th</sup> years.

The company declared dividends of Rs. 75 million and Rs. 39 million in FY 2020/21 and FY 2021/22 respectively.

CAPL is expecting to declare a dividend payment of Rs. 50 million per year for the next five years.

	2022	2021	2020
<b>Equity</b>			
Stated capital	100	100	100
Revaluation reserve	173	100	100
Retained earnings	1,969	1,696	1,423
<b>Total equity</b>	<b>2,242</b>	<b>1,896</b>	<b>1,623</b>
<b>Liability</b>			
Loans and borrowings	536	156	26
Loans and borrowings	145	85	45
<b>Total Debt</b>	<b>681</b>	<b>241</b>	<b>71</b>
<b>D/E</b>	<b>30%</b>	<b>13%</b>	<b>4%</b>



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