

Ceylon Ayurveda (Pvt) Ltd

on *CFRM*

July 2022

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%
Total	100%

- ❑ 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.

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 4th and 5th 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
Equity			
Stated capital	100	100	100
Revaluation reserve	173	100	100
Retained earnings	1,969	1,696	1,423
Total equity	2,242	1,896	1,623
Liability			
Loans and borrowings	536	156	26
Loans and borrowings	145	85	45
Total Debt	681	241	71
D/E	30%	13%	4%

4. 5-Year Forecast

4.1 Income Statement of CAPL

For the year ended 31 March	2023	2024	2025	2026	2027
	Rs. million				
Revenue	3,769	4,146	4,561	5,017	5,518
Cost of sales	(2,261)	(2,363)	(2,600)	(2,859)	(3,145)
Gross profit	1,508	1,783	1,961	2,158	2,373
Other operating income	6	6	6	6	6
R&D expenses	(174)	(200)	(230)	(265)	(304)
Distribution expenses	(943)	(1,036)	(1,140)	(1,254)	(1,380)
Administrative expenses	(355)	(373)	(391)	(411)	(432)
Profit from operations	42	180	206	234	263
Finance income	5	4	3	3	3
Finance cost	(47.5)	(47.8)	(73)	(82)	(90)
Net finance costs	(42.5)	(43.8)	(70)	(79)	(87)
Profit/(loss) before tax	(0.5)	136.2	136	155	176
Income tax expense	-	(20)	(22)	(25)	(28)
Profit/(loss) for the year	(0.5)	116.2	114	130	148

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

	2020	2021	2022	2023	2024	2025	2026	2027
Equity								
Stated capital	100	100	100	125	125	125	125	125
Revaluation reserve	100	100	173	173	173	173	173	173
Retained earnings	1,423	1,696	1,969	1,919	1,985	2,049	2,129	2,227
Total equity	1,623	1,896	2,242	2,217	2,283	2,347	2,427	2,525
Liability								
Loans and borrowings	26	156	536	425	365	342	315	293
Loans and borrowings	45	85	145	225	275	285	320	345
Total Debt	71	241	681	650	640	627	635	638
<i>D/E</i>	4%	13%	30%	29%	28%	27%	26%	25%

Financial Benchmarks

Financial information of SPA Lanka PLC, which is of similar size and complexity to CAPL, listed on the Colombo Stock Exchange, are given below. These figures may be of use for a valuation of the shares of CAPL.

- Dividend payout ratio: 20%
- Earnings per share (EPS): Rs. 45 (issued at Rs. 15 per share)
- The company was funded with a debt-to-equity ratio of 14:86
- Market share price: Rs. 135
- Beta (based on ASPI): 1

Assume the following market information:

- Treasury bill rate: 7.9% per annum
- Market risk premium: 8.0%
- Market rate of return: 15.9% per annum

Working Capital

	2020	2021	2022	2023	2024	2025	2026	2027
Inventories	344	347	556	676	798	875	950	1,100
Trade and other receivables	362	484	515	593	682	735	801	845
Income tax recoverable	(40)	46	55	55	35	26	16	5
Other financial assets	110	110	110	60	51	46	41	41
Cash and cash equivalents	176	240	179	150	116	100	75	65
Total current assets	952	1227	1415	1534	1682	1782	1883	2056
Trade and other payables	196	236	452	519	577	657	731	866
Loans and borrowings	45	85	145	225	275	285	320	345
Bank overdrafts	1	21	8	20	30	45	60	75
Total current liabilities	242	342	605	764	882	987	1111	1286
Net WC	710	885	810	770	800	795	772	770
Revenue	2,751	2,868	3,141	3,769	4,146	4,561	5,017	5,518
Cost of sales	(1,177)	(1,242)	(1,378)	(2,261)	(2,363)	(2,600)	(2,859)	(3,145)
Inventory turnover days	45.64	44.16	64.61	65.47	70.25	70.02	69.12	72.76
Debtors Collection days	48.03	61.60	59.85	57.43	60.04	58.82	58.27	55.89
Creditor Settlement days	(60.78)	(69.36)	(119.72)	(83.78)	(89.13)	(92.23)	(93.32)	(100.51)
Cash Operating Cycle	33	36	5	39	41	37	34	28



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