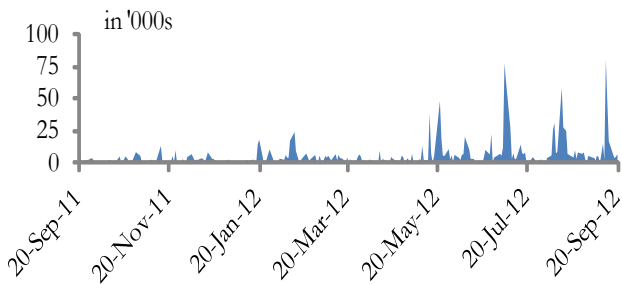


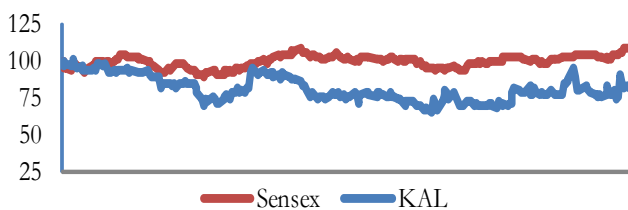
Equity Statistics

| | | |
|--------------------------|------------|------------|
| Current Market Price | Rs. | 43.2 |
| 52 Week High / Low | Rs. | 56.4/33.25 |
| Market Capitalisation | Rs. crores | 45.5 |
| Free Float | Rs. crores | 17.6 |
| Dividend Yield | % | - |
| One Year Regression Beta | Times | 0.8 |

BSE Volumes Trend - Average = 6.38 Thousand

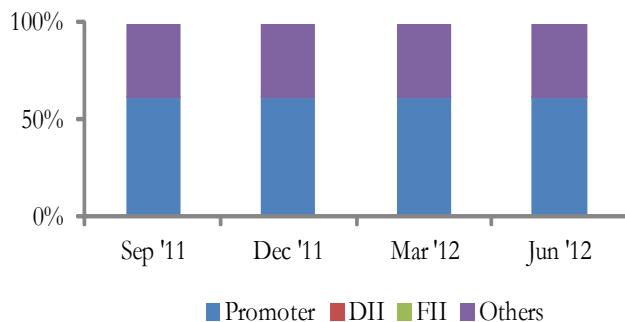


Relative Returns



| Returns (%) | 1M | 3M | 6M | 1Yr |
|--------------------|-----|-----|----|------|
| Absolute | -2% | 12% | 6% | -19% |
| Relative to Sensex | -5% | 4% | 2% | -25% |

Shareholding Pattern



Business Summary

Kerala Ayurveda Ltd. (KAL) is a provider of ayurvedic healthcare services & products. KAL operates treatment centers & clinics, hospitals, wellness resorts and offers academic programs as well. KAL currently operates a chain of 30 treatment centers & clinics, and three ayurveda hospitals and a wellness resort in Bangalore, India. KAL employs over 100 ayurvedic doctors. Through its subsidiaries in the United States, KAL has presence across five locations and offers a range of ayurvedic courses, treatments and healthcare services.

KAL is also engaged in research and development (R&D) of ayurvedic products. The R&D division is engaged in drug research, clinical research, pharmaceutical research, research in agro-techniques and fundamental research. The R&D division has also tried and launched new formulations which are being manufactured and marketed by KAL. Furthermore, KAL has about 400 heterogeneous products which it promotes through distributors and owns a herbarium with more than 1,500 varieties of herbs.

KAL reported a total income of Rs.34.3 crore and incurred a net loss of Rs.2.1 crore in FY12.

KAL is currently trading at 1.4 times FY12 net sales.

Board of Directors

| Person | Role | Qualification |
|------------------------|--------------------|------------------|
| Ramesh Vangal | NED, Chairman | B. Tech., M.B.A. |
| Ronald George Pearce | NED, Vice Chairman | B. Com |
| Dr. K Anilkumar | ED | B.A.M |
| A T Jacob | NED | B.Sc., P.G.D.M. |
| Dr. K Rajagopalan | NED, Independent | M.B.B.S, DAM |
| S Krishnamurthy | NED, Independent | PG (HRM) |
| M C Mohan | NED, Independent | MS, M.Tech, MBA |
| Katharin Zimpel Vangal | NED | Graduate |
| Anand Subramanian | AD | NA |

Source: AR and CARE Research

Note: ED: Executive Director, NED: Non Executive Director, AD: Alternate Director

Source: BSE, Capitaline and CARE Research

Background

Founded in 1945, by Mr. KGK Panicker, KAL is part of the Katra Group, which is engaged in the same line of business. KAL had seven subsidiaries as on March 31, 2012, which included five wholly-owned subsidiaries, namely, Ayu Natural Medicine Clinic P.S., Ayurvedic Academy Inc., Ayu Inc., CMS Katra Nursing LCC (all based in USA) and Nutraveda Pte Ltd (Singapore). The other subsidiaries are AyurvedaGram Heritage Wellness Centre Pvt. Ltd. (India) and CMS Katra Holdings LLC (USA), in which KAL holds 74% and 82% stake respectively.

Ayurveda Gram Heritage Wellness Centre Pvt Ltd (AGH) was recognized as the 'Wellness Services Provider Company of the year 2011' for the second year in a row by Alexandria – Frost & Sullivan. AGH offers ayurvedic treatments and yoga in a heritage resort ambience for specific ailments such as stress, obesity, arthritis, spondylitis, lifestyle disorders, with specialized therapies including panchakarma (detoxification), rasayana chikithsa (rejuvenation), yoga, meditation, pranayama, etc at its wellness center located at Whitefield, Bangalore.

Business overview

KAL derives its revenue primarily from sale of ayurvedic products and services, which accounted for 68% and 32% respectively, of the total operating income of the company in FY12. Above 90% of the income from services was contributed by treatment and consultancy services.

On the expenses side, the material costs and personnel expenses aggregated to nearly 65% of the total expenses.

Strengths and growth drivers

- KAL has over 65 years of experience in this line of business and has been able to expand the scope and reach of business outside the country.
- Besides providing ayurvedic medicines, the company offers consultancy services and has also taken up R&D initiatives in the field of ayurvedic medicines.
- Additionally, the company has ventured into ayurvedic wellness segment including setting up of ayurvedic treatment resorts, an area which attracts both foreign and domestic nationalities.
- On the academic front, the Group has setup an Ayurveda Academy in Seattle, Washington, where more than 1,000 students have undergone various academic programs.

Risk and concerns

- Highly competitive industry which is also immensely regulated in both Indian and foreign countries, especially the United States, where the Group has considerable stake through its subsidiaries.
- Financial risk profile characterized by continuous losses, negative networth and leveraged capital structure; however there has been demonstrated support in the form of unsecured loans from group companies to KAL.

Future strategy and expansion plans

- KAL opened Panchakarma Treatment Centre at S S Ayurveda Hospital in association with Banaras Hindu University (BHU), Varanasi in July 2012. The visitors at the hospital will be able to avail of the facilities of this treatment center.
- KAL is working on increasing the acceptance and visibility of alternative medicine such as ayurveda by getting it approved by FDA and other regulatory agencies and by providing products which meet the global standards.

Industry outlook

The Indian Pharmaceutical Industry (IPI) is amongst the largest in the world and has grown to an estimated total market size of Rs.117,860 crore (around US\$26 bn) in FY011, backed by robust growth in terms of healthcare infrastructure development, technology base and a wide range of products. Total market size includes the domestic market, the export and the import markets. The IPI is now the third-largest in the world in terms of volume and 14th-largest in terms of value thereby accounting for around 10% of world's production by volume and 2% by value due to lower prices. The industry now produces about 500 bulk drugs (Active Pharmaceutical Ingredients-API) and almost the entire range of formulations related to all major therapeutic groups requiring complex manufacturing technologies. The domestic formulations market constitutes the single-largest chunk of the IPI (approximately 80% of the IPI) and serves all major therapeutic segments meeting all domestic requirements. It is primarily dominated by branded generic drugs. This is supported by availability of strong scientific and technical manpower backed by pioneering work done in process development.

The bulk drugs industry has grown at a CAGR (Compounded Annual Growth Rate) of 15% over 2005-2010 (Source: Bulk Drugs Manufacture Association, India). With the growing presence of generic products in the innovator companies' portfolio the demand for quality APIs at cheaper rates has increased so as to face the rising price erosion in the generic market. Also the presence of Indian CRAMS (Contract Research and Manufacturing Services) has increased among the drug innovators which will further boost the exports of bulk drugs.

| Peer comparison | Year ended March 31, 2012 | | |
|-------------------------------------|---------------------------|------------|--------|
| | KAL | Panchsheel | KDL |
| Income statement (Rs. crore) | | | |
| Total income | 34.3 | 29.8 | 55.7 |
| Net sales | 34.3 | 29.8 | 53.9 |
| EBITDA | 0.2 | 3.2 | 3.1 |
| Ordinary PAT | (2.1) | 2.3 | 0.5 |
| Adjusted PAT | (2.1) | 2.3 | 0.5 |
| Per share data (Rs.) | | | |
| Adjusted BVPS | NM | 27.5 | 40.7 |
| Diluted EPS | NM | 4.6 | 0.3 |
| Growth (Y-o-Y) (%) | | | |
| Growth in total income | 11.1 | 12.2 | (33.4) |
| Growth in net sales | 31.3 | 12.1 | (34.9) |
| Growth in EBITDA | NM | 41.6 | 24.9 |
| Growth in adjusted PAT | NM | 160.2 | (41.1) |
| Growth in EPS* | NM | 161.1 | (41.9) |
| Profitability ratio (%) | | | |
| EBITDA margin | NM | 10.7 | 5.8 |
| Adjusted PAT margin | NM | 7.7 | 1.0 |
| Valuation ratios (Times) | | | |
| Price/Sales (P/S) | 1.4 | 0.3 | 0.2 |
| Price/Book value (P/BV) | NM | 0.6 | 0.1 |
| Enterprise value (EV)/EBITDA | NM | 2.7 | 6.7 |

Source: BSE, Capitaline and CARE Research

Note: Panchsheel: Panchsheel Organics Ltd., KDL: KDL Biotech Ltd.

NM: Non Meaningful

| Quarterly financials | Quarter ended June 30, 2012 | | | | |
|-------------------------------------|-----------------------------|--------|--------|--------|--------|
| | Q1FY13 | Q4FY12 | Q3FY12 | Q2FY12 | Q1FY12 |
| Income statement (Rs. crore) | | | | | |
| Total income | 4.8 | 8.9 | 6.7 | 6.8 | 4.6 |
| Net sales | 4.8 | 8.9 | 6.7 | 6.8 | 4.6 |
| EBITDA | 0.5 | 0.4 | 1.8 | 1.8 | 0.5 |
| Ordinary PAT | 0.0 | (0.2) | 0.0 | 0.2 | 0.1 |
| Adjusted PAT | 0.0 | 2.0 | 0.0 | 0.2 | 0.1 |
| Growth (Q-o-Q) (%) | | | | | |
| Growth in net sales | (45.7) | 34.0 | (1.6) | 48.2 | - |
| Profitability ratio (%) | | | | | |
| EBITDA margin | 10.3 | 4.0 | 26.9 | 27.1 | 10.7 |
| Adjusted PAT margin | 0.8 | 22.0 | 0.5 | 2.2 | 1.1 |

Source: BSE, Capitaline and CARE Research

Note: Quarterly financials are standalone results.

Financial analysis

- In FY12, KAL reported net sales of Rs.34.3 crore, up 30% y-o-y. Total income witnessed a growth of ~11% during the same period.
- In FY12, the company reported a positive EBITDA for the first time in last five years. However, KAL continued to report a loss at net levels for the year.
- KAL continued to report a negative network as at the end of March 31, 2012. The debt levels on the other hand, continued to be extremely high as on March 31, 2012 albeit; lower than total debt as on March 31, 2011. The total debt as on March 31, 2012 consisted of long-term debt Rs.46.2 crores and working capital borrowings of Rs.5.4 crores. The long-term debt was inclusive of unsecured loans from group companies amounting to Rs.43.0 crores.
- The company was able to reduce its receivables as reflected in the improved receivable days in FY12.
- The company has not paid dividends in the last five years (*i.e. period considered for the analysis*).

| Annual financial statistics | FY08 | FY09 | FY10 | FY11 | FY12 |
|---|--------|--------|--------|--------|--------|
| Income statement (Rs. crore) | | | | | |
| Total income | 29.1 | 47.4 | 33.8 | 30.8 | 34.3 |
| Net sales | 27.8 | 44.5 | 32.8 | 26.1 | 34.3 |
| EBITDA | (8.0) | (10.7) | (2.2) | (4.0) | 0.2 |
| Depreciation and amortization | 1.0 | 1.1 | 1.0 | 1.0 | 1.0 |
| EBIT | (8.9) | (11.7) | (3.2) | (5.0) | (0.9) |
| Interest | 3.0 | 3.6 | 2.3 | 1.2 | 1.1 |
| PBT | (11.0) | (13.2) | (4.1) | (1.3) | (1.9) |
| Ordinary PAT | (9.5) | (12.1) | (3.7) | (1.9) | (2.1) |
| Adjusted PAT | (9.5) | (13.8) | (4.7) | (5.6) | (2.1) |
| Balance sheet (Rs. crore) | | | | | |
| Adjusted network | (6.5) | (19.1) | (19.5) | (20.0) | (21.8) |
| Total debt | 43.2 | 63.2 | 59.9 | 62.9 | 52.5 |
| Cash and bank | 1.4 | 0.6 | 0.8 | 3.8 | 1.3 |
| Investments | 0.0 | 0.1 | 0.1 | 0.1 | - |
| Net fixed assets (incl. CWIP) | 19.8 | 23.2 | 26.1 | 20.9 | 21.7 |
| Net current assets (excl. cash, cash equivalents) | 12.9 | 16.6 | 9.4 | 14.9 | 4.5 |
| Per share data (Rs.) | | | | | |
| Adjusted BVPS | NM | NM | NM | NM | NM |
| Diluted EPS* | NM | NM | NM | NM | NM |
| DPS | - | - | - | - | - |
| Growth (Y-o-Y) (%) | | | | | |
| Growth in total income | - | 63.1 | (28.7) | (8.8) | 11.1 |
| Growth in net sales | - | 60.0 | (26.2) | (20.6) | 31.3 |
| Growth in EBITDA | - | NM | NM | NM | NM |
| Growth in adjusted PAT | - | NM | NM | NM | NM |
| Growth in EPS* | - | NM | NM | NM | NM |
| Key financial ratio | | | | | |
| EBITDA margin (%) | NM | NM | NM | NM | 0.5 |
| Adjusted PAT margin (%) | NM | NM | NM | NM | NM |
| RoCE (%) | - | NM | NM | NM | NM |
| RoE (%) | - | NM | NM | NM | NM |
| Gross debt - equity (times) | NM | NM | NM | NM | NM |
| Net debt - equity (times) | NM | NM | NM | NM | NM |
| Interest coverage (times) | NM | NM | NM | NM | NM |
| Current ratio (times) | 3.1 | 3.2 | 2.2 | 3.7 | 2.0 |
| Inventory days | - | 64 | 102 | 122 | 90 |
| Receivable days | - | 55 | 68 | 71 | 40 |

Source: BSE, Capitaline and CARE Research

Note: Financial Year (FY) refers to period from April, 1 to March, 31

NM: Non Meaningful

DISCLOSURES

- Each member of the team involved in the preparation of this grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.
- This report has been sponsored by the BSE Investors' Protection Fund.

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