

# GLOBAL IME CAPITAL

## Investment Memorandum

**INITIAL PUBLIC OFFERING**

**REPORT DATE: 2/18/2019**

**Shivam Cements Limited**

**Recommendation: Apply**

**SECTOR: Manufacturing & Processing**

**Listing range: 162-482**

### Overview of the Company

Shivam Cements Limited is the first cement company to issue an IPO in the market. The company was established in 2060 B.S as Private Limited Company. It was changed to Public Limited Company in 2072 B.S.

### Operational Description:

The company has one cement grinding plant. It is located in Hetauda-16, Hatiya, Makwanpur. The company has its own captive limestone quarry which is located near to the plant. The installed capacity of Cement grinding plant is updated to 3000 tons per Day (previously 2300 Tons per Day). Capacity utilization in F.Y 2074/75 was 70% (Based on capacity of 3000 TPD). The company produced 6,93,306 ton of cement in F.Y 74/75.

\* Shivam Cements Limited is issuing IPO of 4,120,000 units of ordinary shares at NRs. 300 per unit (NRs. 200 premium) to the general public. The stated 4,120,000 units of ordinary shares is derived by allotting whole amount of shares issued to staff groups and allotting only 60,000 shares to mutual funds. Similarly, the company is re-issuing Initial Public Offering (IPO) of unsubscribed 5,79,640 units at NRs. 200 (NRs. 100 premium) to the locals of the industry affected areas. The stated 5,79,640 units of shares is derived by allotting 2,00,240 units of shares from previous issue and also allotting further 1,00,120 units of shares to locals to adjust issue price difference between previous local issue price of NRs.300 and present issue price of NRs.200, (8,80,000-2,00,240-1,00,120 = 5,79,640 units)

Issue Details*	
<b>Issue Size</b>	<b>46,99,640</b>
<b>Price per Share (NPR.):</b>	
<b>Local Issue</b>	<b>200</b>
<b>General Public Issue</b>	<b>300</b>
<b>Issue Open Date</b>	<b>6<sup>th</sup> Falgun,2075</b>
<b>Issue Close Date</b>	<b>9<sup>th</sup> Falgun,2075</b>
<b>Issue to Staff</b>	<b>2,20,000</b>
<b>Issue to Mutual Funds</b>	<b>2,20,000</b>
<b>Issue to General Public</b>	<b>41,20,000</b>
<b>Issue to Locals</b>	<b>5,79,640</b>
<b>Issue Manager</b>	<b>Siddhartha Capital</b>
<b>Collection Centers</b>	<b>Meroshare and C-ASBA registered BFIs</b>
<b>Min. Application (Kitta)</b>	
<b>Local Issue:</b>	<b>50</b>
<b>General Issue:</b>	<b>50</b>
<b>Max. Application (Kitta)</b>	
<b>Local Issue:</b>	<b>5,79,640</b>
<b>General Issue:</b>	<b>44,00,000</b>
<b>ICRA Rating:</b>	<b>ICRA NP Grade 3+</b>

### Purpose of IPO Proceeds

Utilization of IPO Proceed	
Particulars	Amount (NPR.)
Total IPO Proceeds	1,49,60,00,000/-
Partial Repayment of Bank Loans*	-
Diversification and Expansion of Business*	-
<b>Total</b>	<b>1,49,60,00,000/-</b>

\* The amount to pay bank loans and also amount required for diversification and expansion of business is not finalized yet.

## Future Plans and Strategies:

- 1.To increase the capacity of production by exploration of new quarries and mines and setting up plants.
- 2.To provide consultancy services and other resources to other cement manufacturers.
3. To explore, investigate and mine various cement related minerals and raw materials.

## Board of Directors

The board of directors of company consists of 5 directors.

Promoter Shareholder	Number of Shares in 000'
Mr. Surendra Kumar Goyal	46,46,400
Ms. Poonam Goyal	42,59,200
Ms. Rohit Gupta	24,20,000
Ms. Srinivas Sarada	19,84,400

S.no	Name	Qualification	Current Profile	Experience
1	Mr. Surendra Kumar Goyal	B.SC (Mechanical Engineer)	Chairperson	27 years of experience as Director at various organizations and involved in industry and service sector
2	Mr. Raghunandan Maru	B.Com	Director	25 years of experience in mineral industry and V.P of Maru Group.
3	Mr. Sandeep Kumar Sarada	B.Com	Director	25 years of managerial experience in various organization and Executive Director of Sarada Group
4	Mr. Amit More	M.B.A	Director	Managerial experience at Lucky Group.
5	Mr. Rohit Gupta	M.sc in Finance and Management	Director	9 years of experience in different industries and business.

## Key Person

S.no	Name	Current position	Education	Experience
1	Mr. Sajan Devkota	Vice President of Sales and Marketing	M.B.A	25 years of experience in sales and Marketing in various FMCGs
2	Mr. Deepak Methani	Vice president of Mining	Diploma in Mining Engineering	35 years on experience in various cement companies in India and Africa
3	Mr. Nawal Kishor Chaudhary	Manager	B.E Electrical	19 years of experience in Udaypur Cements and 5 years in Shivam Cement
4	Mr. Arjun Shamsher Rana	Quality and Lab Head	B.Sc	34 years of experience in cement Industry
5	Mr. Jyoti Thapa	Finance Head	C.A	5 years of experience at FMCGs in Accounts and Finance department.

## General introduction to Balance Sheet and Income Statement

### Excerpts from Balance Sheet in (NRS in 000')

Particulars	Audited			Projected		
	2072/73	2073/74	2074/75	2075/76	2076/77	2077/78
F.Y						
Share capital	20,00,000	25,00,000	38,72,000	44,00,000	44,00,000	44,00,000
Reserve & Surplus	8,90,657	14,91,429	23,85,424	31,40,820	43,32,247	55,55,037
Long term Debt	15,16,833	23,50,872	24,84,011	16,22,694	12,71,452	9,35,646
Net worth	29,73,597	39,91,429	62,57,424	85,08,820	97,00,247	1,09,23,037
Net Current Asset	10,96,921	8,47,801	7,22,995	27,11,986	40,62,625	53,69,676
Cash and Equivalents	63,261	20,594	94,994	1,74,447	5,56,409	18 58 183
Total Asset	61,58,779	85,45,370	1,27,63,400	1,25,80,542	1,28,72,987	1,39,73,894

operations. The Long term Debt is projected to decrease at 27% CAGR over 3 years. Net current Asset is projected to increase at 95.11% CAGR over 3 years.

Share Capital is forecasted to be at 4.4 Arba after IPO. Reserve and Surplus of the company is projected to increase at 33% CAGR over 3 years. Long term debt is forecasted to be paid partially by IPO proceeds and from

### Excerpts from Income Statement in (NRS in 000')

Particulars	Audited			Forecasted		
	2072/73	2073/74	2074/75	2075/76	2076/77	2077/78
F.Y						
Income from Sale of Cement	57,68,932	7,363,684	1,02,65,064	10,938,373	12,608,609	12,911,549
Gross Profit	20,32,306	24,56,653	34,47,750	36,91,045	42,40,976	45,60,370
Operating profit	15,90,570	19,62,338	26,92,903	28,42,078	32,45,609	34,57,201
Finance Expenses	1,75,480	2,06,172	3,66,875	3,78,271	1,74,635	1,35,572
Depreciation Expenses	4,19,082	7,03,145	6,75,952	6,63,039	5,51,995	4,62,465
Net Profit	7,77,820	8,11,373	11,43,275	13,36,196	18,51,427	21,02,791

and Amortization (EBITDA) is increasing at an average rate of 10% over the forecasted years. Finance expenses is forecasted at decreasing trend as the company is not taking extra debt and CAPEX is forecasted to be financed through accumulated profit. Similarly, depreciation expenses are forecasted to decrease by 11.8% CAGR over 3 years. Net Profit after Tax is forecasted to increase by 17%, 39%, 14% in 2075/76, 2076/77 and 2077/78 respectively.

Income from sale of cement on an average is forecasted to increase by 8% over 3 years. Earnings before Interest Taxes, Depreciation

### Ratios

Particulars	Audited			Projected		
	2072/73	2073/74	2074/75	2075/76	2076/77	2077/78
F.Y						
BVPS (NPR.)	145	160	162	193	220	248
EPS (NPR.)	39	32	29	30	42	48
Debt to Equity Ratio (Times)	0.71	0.81	0.69	0.32	0.15	0.09
Current ratio	1.66	1.38	1.18	2.11	3.14	3.54
Net Profit Margin	13%	11%	11%	12%	15%	16%
Operating Profit Margin	28%	27%	26%	26%	26%	27%
Gross Profit Margin	35%	33%	34%	34%	34%	35%
Interest Coverage Ratio (Times)	6.68	6.11	5.33	5.76	15.42	22.09
Return on Equity	26%	20%	18%	16%	19%	19%
Return on Fixed Asset	23%	19%	25%	33%	52%	67%
Debtor (Days)	38	38	38	48	52	55
Inventory (Days)	111.34	102.05	103.43	115.41	102.28	105.22
Creditor (Days)	46	42	44	44	37	41
Sales per ton Cement Produced (NRs.)	13,758	13,452	14,870	13,811	14,151	13,728
EBITDA per ton Cement produced (NRs.)	3,793	3,584	3,810	3,588	3,643	3,676

## Valuation of Company: Discounted Free Cash Flow to Equity (FCFE)

**FCFE or Free Cash Flow to Equity model** is one of the Discounted Cash Flow Valuation approaches to calculate the fair price of the stock. FCFE measure how much cash a firm can return to its shareholders which is calculated after paying for the taxes, capital expenditure debt and interest expenses.

Particulars	
Required Return on Equity	15%
Terminal Value Growth	4.3%
(A) Present value of 3 years forecasted Free cash Flow to Equity (FCFE) in 000'	1,408,606
(B) Present Value of Terminal Value in 000'	17,862,659
Value of Equity (A)+(B)	19,271,265
No. of Equity Shares after IPO in 000'	44,000
Value per Equity Share	493

The company forecasts to provide dividend of 15% and eventually of 20%. Thus, it is deemed viable to take 15% as required rate of return on equity. Terminal value, 4.3% is taken as average growth rate of Nepal's economy of over past 6 years. As valuation is done on basis of post IPO basis, total number of equity shares is taken after IPO issue. The price derived by discounting Free Cash Flow to Equity of company over 3 years with consideration of terminal value with growth factor of 4.3% is **NRs. 493**

Note: For relative valuation, there is need of Peer Company's information. Shivam Cements Limited is a newly to be listed cement based company in NEPSE. There are no peer company for comparison for Shivam Cements Limited. So, **FCFE or Free Cash Flow to Equity model** is used.

## Strengths-Weaknesses-Opportunities-Threats (SWOT) Analysis

### STRENGTHS

- **Experienced promoters:** The company has experienced promoters and management personnel having years of experience in Cement and FMCG sector.
- **Geographical Diversification:** The company has diversified sales network as its sales activities are dispersed far wide across Nepal.
- **Branding:** Shivam Cements has been spending in various advertisement, after sales services and other offers to its customers which can be effective in increasing market share.

### WEAKNESSES

- **Import of clinker:** The company needs more clinker for grinding purposes. Price increases and other external factors related to exporting countries can affect cost of sales.
- **Narrow Customer Base:** The Company's 70% of sales is from retail source and only 30% from outright purchase by projects. Thus, this concentration hinders any potential advantage of earnings in incorporation of big project and construction booms.

### OPPORTUNITIES

- **Import substitution:** It is believed that within 2 years, Nepal would be independent in cement and clinker production. Thus, there is a good opportunity for cement manufacturers to produce and sell their products without any external hindrance related cost and logistics.
- **Possible consolidation:** Consolidation (Mergers and Acquisitions) can be fruitful to cement industry in Nepal which would bring supply rationalization. Company like Shivam Cements can do possible acquisitions to diversify and expand business.
- **Untapped Resources and Diversification:** Nepal is very new in cement industry thus, there can be valuable resources which is overlooked. Also, Nepalese producers are now concentrating on PPC and OPC types of cement only which could be diversified.

### THREATS

- **Low Fiscal Spending:** Nepal experiences below target fiscal spending in most of the financial years. As we know government capital expenditure and growth of construction industry is directly related, this can make business environment gloomy for cement industry.
- **High Competition:** Cement industry is characterized by highly competitive business environment marked by the presence of number of players given the small size of the overall market. Resultant limited pricing power therefore constrains the ability of the company to pass on input cost increases to the customers.

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**Global IME Capital Limited**  
3rd Floor, Rastriya NaachGhar  
Jamal, Kathmandu, Nepal  
Contact No.: +977-01-4222460, 4261178, 4223593  
Fax No.: +977-01-4222534  
Email: [info@gicl.com.np](mailto:info@gicl.com.np)  
Website: [www.globalimecapital.com](http://www.globalimecapital.com)