

SHIVAM CEMENTS LIMITED

Issue Units: (General + Locals) 4,699,640 units Minimum Units: 50/50 Issue Open Date: 06/11/2075 Rating: ICRANP IPO Grade 3+
 Issue Price: Rs.300/200 Maximum Units: 4,400,000/579,640 Issue Close Date: 09/11/2075 Issue Manager: Siddhartha Capital Ltd.

Chairman: Mr. Surendra Kumar Goyal

<u>Valuation</u>	<u>Rs.</u>
As per EPS Cap.	268.83
As per DCF	394.51
As per RIM	308.75
Average Value	<u>324.03</u>

• RIM = Residual Income Model

Capital Structure

Authorized Capital	Rs. 7,00,00,00,000
Issued Capital	Rs. 4,40,00,00,000
Paid up Capital	Rs.3,87,20,00,000

After the issue, the paid up capital will uniform the issued capital.

After the IPO, the shareholding structure will be:

Promoters	88%
Other (Public)	12%

Financial Highlights (in millions)

Financial Years	74/75	75/76E	76/77E	77/78E
Paid Up Cap.	3,872	4,400	4,400	4,400
Reserve & Surplus	2385.4	3,140.8	4,332.2	5,555
Total Assets	12,763	12,580	12,872	13,973
Sales revenues	10,265	10,938	12,608	12,911
Net Profits	1143.2	1336.19	1851.42	2102.79

<u>Ratios</u>	74/75*	75/76E	76/77E	77/78E
EPS	29.53	30.37	42.08	47.79
BVPS	161.61	193.38	220.46	248.25
ROE	18.27%	17.72%	21.20%	21.12%
ROA	8.96%	10.62%	14.38%	15.05%
After tax ROCE	29.8%	23.7%	26.3%	26.5%
NOPAT	2.14bill	2.33bill	2.66bill	2.83bill
LT Debt Equity	0.40x	0.17x	0.12x	0.08x
Assets T/O	1.9x	1.5x	1.5x	1.4x
Current Ratio	1.18	2.11	3.14	3.54

Other Fundamentals

Enterprise Value (at book value)	2074/75*	8.63 billion
EBITDA Margin		25.4%
EBIT Margin		18.9%

*Unaudited

Products	Licensed	Installed	Utilized
Cements	3000TPD	3000TPD	3000TPD
Clinker	3000TPD	1900TPD	1900TPD

Given the country pointing towards higher economic growth along the challenges put on by 2015 earthquake, the Cement industry is certain to have key contribution in the developmental steps. However, there is significant gaps between the demand and supply, where later is only able to fulfill less than half the former. Being the first to go Public and owing a major market coverage, the company is plausible to have competitive advantages ahead.

Snapshots...

- Company Profile:** The principle business activities of the company is to manufacture OPC 43 Grade and OPC 53 Grade Cements. Besides, it also manufacture and sell Clinker. It is the largest manufacturing Greenfield project in Nepal. Incorporated in 2003, the company has corporate office at Anamnagar, Kathmandu and registered office with industrial site at Hatiya-16, Hetauda, Makwanpur. The company holds 88% stakes in Shivam Holding Private Ltd. and effectively holds 26.8% stakes in Hongshi Shivam Cement Pvt Ltd.
- IPO issue details:** Company had previously determined the issue price of IPO's to General Public at Rs. 400 and Locals at Rs.300. However, following the SEBON regulation of capping the premium amount to twice the net worth and considering the overall NEPSE downtrend, the issue price was revised to Rs.300 to Public and Rs.200 to Locals. Earlier, 880,000 units was issued to Locals where application of only 22.75% was received. The company is again issuing 579,640 units IPO share to the Locals and 4,120,000 units to Public.
- Favorable Rating:** ICRA Nepal has assigned Grade 3+ on March 2018 (revalidated on June 2018) which indicate average fundamental suggesting strong operational and financial profile of the company.
- Valuation and Assumption:** We have valued the company using three approaches using the projected financial statements prepared by the company. WACC of 18.92% is used as discount rate while terminal rate is assumed to be 12.5% for decrease in risks premium. Terminal growth of 3.60% as determined by World Bank for Nepal is used. The value shows that the company is worth 3.24x the current paid up capital. Discount rate of 15% is used for market liquidity.
- Financials and projected resumes:** Overall the financial profiles of the company is satisfactory with a consistent revenues growth surpassing Rs.1 billion. Key ratios and growth are commendable as compared to other existing listed companies. The projections made seems conservative, though highly fickle and lack of consistencies are observed on its growth pattern along with unrealistic valuations. Avg. cost of equity capital (FY 74/75-71/72) is 22.51% which tends to be slightly less than after tax return on capital employed, showing positive economic value addition.
- Dividend Projections:** The Company projects to distribute 15%, 20% and 20% Dividend for the FY 75/76, 76/77 and 77/78 respectively.
- Utilization of IPO Proceeds:** Total proceeds from the IPO will be Rs.1.496 billion which includes Premium of Rs.968 million. These amounts are expected to be utilized to pay off loans from several banks.

IPO LISTING RANGE Rs. 161.61 – Rs.484.83

Underwriter: NIBL Ace, Global IME & CBIL Capital's

Disclaimers: Not to be inferred as Investment recommendations.