**Memorandum**

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| --- | --- |
| **TO** | BOD |
| **From** | CEO |
| **CC** | Company Secretary |
| **Date** | 24-Nov-2023 |
| **Subject** | Underwriting of Sarbottam Cement Limited |

**This Memo is in reference to the underwriting of shares for the upcoming IPO of Sarbottam Cement Ltd.**

**Proposal Detail**

**Incorporated in October 2010 as private limited company and converted into public limited company in July 2019, Sarbottam Cement Limited (Sarbottam) is involved in the production and selling of clinker and cement. Initially established as a plant with capacity of ~0.4 million MTPA, the capacity currently stands at ~1 million MTPA for clinker as well as grinding. The company’s major shareholding is from the Saurabh Group, a prominent business house of Nepal. Its factory is located at Ramnagar VDC-05, Nawalparasi district. The company mainly manufactures OPC and PPC cement under the brand “Sarbottam”**

**Sarbottam Cement Ltd. has been the first company to obtain the IPO approval through Book Building Method, which was approved by the Securities Board of Nepal (SEBON) on 1 Kartik 2080. Sarbottam Cement is floating 60,00,000 units of shares i.e., 12.9033% of its total issued capital via. Book Building Method. Out of total 60,00,000 units of shares to be issued, 40% shares (i.e., 24,00,000 units of shares) have been segregated for Qualified Institutional Investors (QIIs), and the remaining 60% shares (i.e., 36,00,000 units of shares) is segregated for General Public including locals; which will be issued post issuance to QIIs as per the Book Building Directives, 2077. In this connection company has requested us to forward the proposal for underwriting service from prospective underwriters for its upcoming IPO issue of 36,00,000 units of shares to General Public.**

**The issue price for the General public will be finalized after the bidding process to QII’s .** Company has categorized its public Offerings into following categories:

|  |  |  |  |
| --- | --- | --- | --- |
| S.N | Particulars | (%) | Ordinary Share Number |
| 1 | Promoter Portion | 87.0967% | 40,500,000 |
| 2 | Public Portion | 12.9033% | 6,000,000 |
| i) | QIIB Book Building Method | 5.1613% | 2,400,000 |
| ii) | General Public | 7.7420% | 3,600,000 |
|  | Total | 100% | 46,500,000 |

**The issue price for the General public will be finalized after the bidding process to QII’s for the current assessment the we will take the minimum issue price for the issue to General public of NPR 360.90 per share (10% below the lower limit of bidding range i.e NPR 401-601.50 per unit )**

**Total amount of general public portion with premium assuming issue price of NPR of 360.90 Per share will be NPR 1,299,240,000**

Hence, this memo seeks to gain an approval to an underwriting proposal to a maximum of NPR 50 Crore and 10 Crore of the said IPO by Sanima Capital and Sanima Equity Fund respectively with minimum underwriting fees of 0.40% fee.

The total underwriting capacity stands at 107.19 crores, as per SEBON Circular (3 times the Net Worth), for Sanima Capital Ltd. As of the current date, Sanima Capital underwriting commitment is only 13.2685 Crore for Chilime Engineering and Services Company (CESCO), leaving an available underwriting capacity of 93.92 crores for Sanima Capital Ltd. However, there are no underwriting commitment active for the Sanima Equity Fund(SAEF)

Total underwriting at current date

|  |  |  |  |
| --- | --- | --- | --- |
| **S.N.** | **Client Name** | **Sanima Capital** | **SAEF** |
| **1** | Chilime Engineering and Services Company | 132,685,000 | - |
|  | **Total** | **132,685,000** | **0** |

|  |  |
| --- | --- |
| Sanima Capital Ltd total available underwriting limit. | |
| Net Worth | 357,314,850.00 |
| Allowable Underwriting (Net worth\*3 Times) | 1,071,944,550.00 |
| Active Underwriting (CESCO ) | 132,685,000.00 |
| Available | 939,259,550.00 |

|  |  |
| --- | --- |
| **Underwriting capacity available for Sanima Equity Fund(SAEF)** | |
| **Net Assets of the Scheme** | 1,363,679,619 |
| **No. of Units O/s under Scheme** | 130,000,000.00 |
| **NAV per Unit** | 10.49 |
| **Allowable Underwriting (10% of NAV)** | **136,367,962** |

**Proposed Underwriting Details.**

|  |  |  |  |
| --- | --- | --- | --- |
| Underwriter | Tentative Amount (RS) | Rate % | Tentative fee (Rs.) |
| Sanima Capital Ltd | 500,000,000 | 0.40% | 2,000,000 |
| Sanima Equity Fund | 100,000,000 | 0.40% | 400,000 |

**Background of the company.**

**Established as a flagship product of Saruabh Group, Sarbottam Cement was founded in the year 2010, however it came in operation from February, 2014. It’s head office is at Neupane Tower, Tinkune, Kathmandu with the factory situated approximately 240 km away from the Kathmandu at Sunwal, Nawalparasi. The factory has been established with an authorized capital of Rs 4,000 million. It is one of the largest cement factories of Nepal that produce their own clinker. The factory is spread over 30 bighas of land and the mine is spread over an area of 20 square kilometers for extracting limestone. At present, Sarbottam cement is employing 200+ people all across Nepal.**

**Sarbottam Cement Limited (SCL) is the first cement manufacturer to use a completely European production line. Sarbottam Cement is the first manufacturer that produces cement through the use of a Vertical Roller Mill (VRM). This innovative technology allows us to save up to 50% in energy consumption, thereby drastically reducing the carbon footprint. Sarbottam Cement purchases various mines in limestone rich from Palpa & Chitwan districts.**

Share structure of the company is divided into 87.10:12.90 ratio, 87.10% is being held by the promoters while 12.90% has been set aside for public offerings.

**Board & Management Detail**

**Board Member Details**

|  |  |  |  |
| --- | --- | --- | --- |
| S.N | Name | Designation | Remark |
| 1 | Mr. Bishnu Prasad Neupane | Chairman / Managing Director | More than 25 years of experience in cement and steels industryQualified as a Civil Engineer.Central Member of RECR Engineering Association.Central Member of Swabalambi Samaj, IRL School, Nepal Heart Foundation.Member of Nepal Clinker and Cement production organization. |
| 2 | Mr. Bimal Sawarthia | Director | More than 25 years of experience in manufacturing and trading Industry.Former director of Niti International Limited, Honking from 1992 A.D to 1999 A.D.Founder of trading entities Saloni Trade Concern P. Ltd and Heritage International P. Ltd.Also currently serving as the director of IMS Group and Sawarthia Group |
| 3 | Mr. Tikaram Neupane | Director | Chairman of Jagdamba Cement and Subha Shree Jagdamba Cement.  Founder directors of Saurabh Group and has an extensive experience over two decades in heterogeneous sector of the industry.  Healso currently also serves as the Chairman of Laxmi Steels Pvt. Ltd. And Sarbottam Minerals Pvt. Ltd. |
| 4 | Mr. Tenzing Lakden Tamang | Director | Leading Mobitel Niti Internal since past two and a half years.  Director in Krishna International FZCO, U.A.E since past four years.  Has more than 8 years of experience in Cement Industries and other different National & International companies. |
| 5 | Mr. Diwas Neupane | Director | Carries an expertise in the process of Debottlenecking, Supply Chain optimization and modernization in decision making |

**Management Details**

|  |  |  |  |
| --- | --- | --- | --- |
| S.N | Name | Designation | Remarks |
| 1 | CA Santosh K.C | Chief Executive Officer | 1 year 5 months work experience in Jyoti Bikas Bank Ltd. in charge of accounting and finance branch.  2 years working experience as Finance Manager and Company Secretary in Panchkanya Group.  Saurabh Group Subsidiary Cement Ltd. A total of 8.5 years of work experience including 5 years and 5 months of work experience as head of accounting and finance. |
| 2 | Mr Abhishake Jha | Institutional Sales Head | Department of Urban Development and building construction Civil in Nepal 1 year 5 months of work experience as an engineer  5 years of Experience in Sarbottam Cements as Sales Head. |
| 3 | Mr Nir Bahadur Budhathoki | Finance Head | Gorkha In Counter Pvt. Ltd. 5 years of work experience as Accounts Manager  2 years work experience as Accounts Manager of Heritage Flooring Carpet Udyog Pvt Ltd  Sarbottam Cement Ltd. Total 17 years of work experience with 10 years of work experience as head of accounting and finance. |

**Summary of rating action**

|  |  |  |
| --- | --- | --- |
| Facilities | Current Rated Amount (Rs. Million) | Rating Action |
| Issuer Rating | NA | [ICRANP-IR] BBB; downgraded from [ICRANP-IR] BBB+ |

ICRA Nepal has downgraded the issuer rating of Sarbottam Cement Limited (Sarbottam or the company) to [ICRANP-IR] BBB@ (pronounced ICRA NP issuer rating triple B) from [ICRANP-IR] BBB+ (pronounced ICRA NP issuer rating triple B plus) and this rating has also been place on ‘Watch with Negative Implications’.

**Source: ICRA Nepal Limited**

**Rating: December 2022**

ICRA Nepal has aligned the Issuer Rating Scale with the Long-Term Rating Scale. The table below shows the which shows what BBB means and different other rating meaning

|  |  |
| --- | --- |
| [ICRANP-IR] AAA | Issuers with this rating are considered to have the highest degree of safety regarding  timely servicing of financial obligations. Such issuers carry lowest credit risk. |
| ICRANP-IR] AA | Issuers with this rating are considered to have high degree of safety regarding timely  servicing of financial obligations. Such issuers carry very low credit risk. |
| ICRANP-IR] A | Issuers with this rating are considered to have adequate degree of safety regarding  timely servicing of financial obligations. Such issuers carry low credit risk. |
| [ICRANP-IR] BBB | **Issuers with this rating are considered to have moderate degree of safety regarding  timely servicing of financial obligations. Such issuers carry moderate credit risk.** |
| [ICRANP-IR] BB | Issuers with this Rating are considered to have moderate risk of default regarding  timely servicing of financial obligations. |
| [ICRANP-IR] B | Issuers with this Rating are considered to have high risk of default regarding timely  servicing of financial obligations. |
| [ICRANP-IR] C | Issuers with this Rating are considered to have very high risk of default regarding timely servicing of financial obligations |
| [ICRANP-IR] D | Issuers with this Rating are in default or are expected to be in default soon. |

The sign of + (plus) or – (minus) may be appended to the Rating symbols to indicate their relative position within the Rating categories concerned.Thus the Rating of [ICRANP-IR] BBB+ is one notch higher than [ICRANP-IR] BBB, while [ICRANP-IR] BBB- is one notch lower than [ICRANP-IR] BBB.

For the book-building process, a company should have average or above-average ratings from rating agencies. Hence, the BBB rating suffices for the required rating in the book-building process

**Financial Highlights  of Sarbottam Cement Ltd**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Particulars | Audited (In 000's) | | Unaudited | PROJECTED (In 000's) | | |
| Income Statement | 2077/78 | 2078/79 | 2079/80 | 2080/81 | 2081/82 | 2082/83 |
| Ordinary Share Capital | 4,050,000 | 4,050,000 | 4,050,000 | 4,650,000 | 4,650,000 | 4,650,000 |
| Reserve and Surplus | 2,435,248 | 2,905,432 | 3,450,027 | 4,985,815 | 4,851,539 | 4,641,650 |
| Net worth | 6,485,248 | 6,955,432 | 7,500,027 | 9,635,815 | 9,501,539 | 9,291,650 |
| Total loan | 701,692 | 472,855 | 345,379 | 189,666 | 48,002 |  |
| Total Assets | 11,824,080 | 12,861,993 | 13,269,384 | 12,028,255 | 11,938,906 | 11,884,273 |
| Revenue from Operations | 8,937,837 | 7,881,499 | 5,380,270 | 7,890,594 | 8,141,016 | 8,723,998 |
| Cost of Sales | 5,900,635 | 5,516,285 | 4,350,905 | 6,226,511 | 6,351,227 | 6,718,675 |
| Cost of Sales (% of sales) | 66.02% | 69.99% | 80.87% | 78.91% | 78.02% | 77.01% |
| Gross Profit | 3,037,202 | 2,365,214 | 1,029,365 | 1,664,083 | 1,789,789 | 2,005,323 |
| EBIT | 1,707,682 | 886,803 | 668,042 | 1,215,698 | 1,300,923 | 1,479,114 |
| EBIT Margin(% of Sales) | 19.11% | 11.25% | 12.42% | 15.41% | 15.98% | 16.95% |
| Finance Costs | 205,603 | 325,459 | 409,098 | 188,518 | 70,300 | 70,095 |
| EBT | 1,502,079 | 561,344 | 258,944 | 1,027,180 | 1,230,623 | 1,409,019 |
| Profit for the year | 1,310,357 | 467,661 | 207,573 | 828,428 | 1,028,224 | 1,185,111 |
| EPS | 20.21 | 6.72 | 2.77 | 8.60 | 10.82 | 12.75 |
| BvPS | 160.13 | 171.74 | 185.19 | 207.22 | 204.33 | 199.82 |
| ROE% | 12.62% | 3.91% | 1.50% | 4.15% | 5.30% | 6.38% |
| Debt Serving Ratio | 8.31 | 2.72 | 1.63 | 6.45 | 18.51 | 21.10 |
| Debt to Equity Ratio (Times) | 0.11 | 0.07 | 0.05 | 0.02 | 0.01 | 0.00 |
| Debt / (Equity+Debt) Ratio (%) | 9.76% | 6.37% | 4.40% | 1.93% | 0.50% | 0.00% |

**The cement industry holds a pivotal role in the economy, serving as a barometer for infrastructure development and economic growth. Tightly intertwined with construction activities, the demand for cement is a reliable indicator of economic expansion. The sector is capital-intensive, requiring substantial investment, and its performance is influenced by government spending on infrastructure projects and housing policies. Characterized by its cyclical nature, the cement industry's fortunes often mirror broader economic trends, making assessment of the economic environment the trend is positive**

**Capital Market Situation**

Currently, NEPSE is hovering around the 1800-1900 level, exhibiting mostly sideways correction. The market closed at 1,860 as of November 23, 2023, with a market capitalization of NPR. 2,868.12 billions

The current market position appears to be improving, driven by positive economic data. Notably, the Balance of Payments (BOP) and remittance data are positive. In the 3-month data for 2080/81, remittances increased 30.0 percent in NPR terms and 25.9 percent in USD terms. Balance of Payments remained at a surplus of Rs.99.07 billion Additionally, the policy of the Nepal Rastra Bank (NRB) seems more lenient, contributing to an improved liquidity situation.

Public participation in primary issues is still witnessing oversubscription, exceeding the call amount by more than 1.5 times. This is attributed to the attractive trading prices of issued company stocks on NEPSE. Also, for the IPO of the book building process the minimum application unit is 50 units . Hence to be fully subscribe 72,000 applicants are only necessary. Since the number of share are low and minimum bidding quantity is 50 the subscription times may reached ever higher even at low number of valid applicant.

Below is a list of company that have recently raised capital via IPO with premium, along with the total applications received from the public:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Closing Date | Last Closing Date | Company | Price (Rs.) | Kitta Issued | Valid Applicants | Total Application in amount (cr) | Subscrip tion times | Issue Manager | Market price |
| 10/1/2023 | 10/5/2023 | Sonapur Minerals and Oil Limited | 237.58 | 9,732,544 | 1,040,770 | 231.23 | 1.47 | NIMB Ace Capital Limited | 287.9 |
| 7/10/2023 | 7/20/2023 | IME Life Insurance | 236.91 | 9,600,000 | 1,195,932 | 340.5 | 1.5 | Civil Capital Market Ltd. | 487 |
| 8/11/2023 | 8/22/2023 | Reliable Nepal Life Insurance | 257 | 9,600,000 | 1,364,353 | 409.4 | 1.66 | Civil Capital Market Ltd. | 440 |
| 8/21/2023 | 8/31/2023 | Sun Nepal Life Insurance | 239 | 7,680,000 | 1,460,061 | 390.96 | 2.13 | Nepal SBI Merchant Banking Limited | 455.1 |
| 9/5/2023 | 9/15/2023 | Citizens Life Insurance | 244 | 9,000,000 | 1,413,158 | 428.68 | 1.38 | NIMB Ace Capital Limited | 430 |
| 7/10/2023 | 7/10/2023 | Ghorahi Cements Industry | 435 | 6,911,670 | 557,701 | 339.03 | 1.12 | Himalayan Capital Ltd. | 412 |
| 10/5/2023 | 10/15/2023 | Sonapur Minerals and Oil Limited | 237.58 | 9,732,544 | 1,040,770 | 284.51 | 1.47 | NIMB Ace Capital Limited | 287.9 |

**Possibility of Under Subscription & their Mitigation**

During the recent past, public offerings have witnessed overwhelming subscription from the investors. There is three cement industry listed in NEPSE. Demand for the diversification and alternative may further attract the investor. Though the current financial standing of the institution is average, but taking into account the attractiveness and the investor's sentiment for the IPOs. There exist minimal probability of under subscription this IPO. However, if the issue is under subscribed, Sanima Capital and Sanima Equity fund will have to buy a maximum of up to its committed number of shares at face value NPR. 360.9 per share.

As per Securities Issuance and Allotment Directory, 2074, Clause (21) Sub section(6) "Despite anything written in sub-section (5), if the shares are issued with a premium price or if all the shares are not sold within the time period issued to the public in the prospectus, the organized organization or according to the prevailing law the established organization can purchase such shares.

Considering the existing capital market scenario, prices of similar institutions at the time of their listing going far above their Issue price value & the direction in which the Institution is heading, if Sanima Capital Ltd and Sanima Equity Fund is to buy the undersubscribed shares, there exists the probable opportunity for capital gain even in worst case scenario

**Recommendation**

We recommend providing underwriting facility up to a maximum of NPR 50Croreand 10 Crore the said IPO by Sanima Capital and Sanima Equity Fund respectively for the common stock of the said institution in view of the following:

* Relatively better operational profile – With an installed clinkerisation as well as grinding capacity of ~1 million metric tons per annum (MTPA), Sarbottam is among the large-scale players in the industry. Despite the sharp increase in coal prices during FY2022 and 9MFY2023, the company was able to control its overall cost of production through reduced limestone cost as the mining was started from a relatively closer mine. This was the main reason for relatively better margins despite the dip in last 12-18 months.
* Sarbottam has reported gradual reduction in leverage levels in recent years, mainly through retention of accruals over the years and shortened term debt repayment tenure leading to sizeable term loan downsizing on a YoY basis
* Experienced promoters/management; operational synergies from being part of the Saurabh Group – The company is a part of the Saurabh Group, which has more than 20 years’ experience in the cement industry, along with presence in other manufacturing and trading sectors.

Thus, this memo approval to an underwriting proposal to a maximum of NPR 50 Crore and 10 Crore for the said IPO by Sanima Capital Ltd and Sanima Equity Fund respectively with condition of the IPO price of NPR 360.9 per share with minimum underwriting fees of 0.40% fee applicable for 6 months period from the date of agreement.