**Memorandum**

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| --- | --- |
| **TO** | BOD |
| **From** | CEO |
| **CC** | Company Secretary |
| **Date** | 02-Oct-2023 |
| **Subject** | Underwriting of Jagdamba Steels Private Ltd |

**This Memo is in reference to the underwriting of shares for the upcoming IPO of Jagdambha Steels Pvt Ltd.**

**Proposal Detail**

**Jagdambha Steels Pvt Ltd** (JSPL) is a private limited company incorporated on October, 1993 and has plant in Jitpur, Simara-2, Bara, Nepal for manufacturing of various steel items with total installed capacity of 2,444,000 MTPA. The manufacturing facilities of the company has been segregated into Cold Rolled Products, Rolling Mills Products, Wire Products and Melting Products where variety of products are manufactured. JSPL is a part of Shanker group having strong presence in Nepal through its involvement in various industries.

Jagdambha Steels Pvt Ltd intends to release a public offering, where they plan to sell 30% of their issue capital. This equates to 20,070,000 units, amounting to NPR 6.021 Arba in total. The offering price will include a premium of 200 per unit, resulting in a total issue price of 300 per unit.

In this connection company has requested us to forward the proposal for underwriting portion of said IPO. Company has categorized its public Offerings into following categories:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| S.N | Particulars | (%) | Ordinary Share Number | Amount |
| 1 | Promoter Portion | 70% | 46,830,000 | 4,683,000,000 |
| 2 | Public Portion | 30% | 20,070,000 | 2,007,000,000 |
|  | Total | 100% |  | 6,690,000,000 |

Total amount of public portion with premium 6.021 Arbha

As per the SEBON regulation, at least 50% of the public issue amount requires underwriting from SEBON licensed underwriter. Similarly, clause (17) (2), (3) if an issuing company’s net worth per share less than par value per share or valuation from minimum rating requires 100% underwritten of the total Public issue. Here companies’ net worth per share is greater than par value per share and rating assigned is “IRN BBB (Is) [Triple B (Issuer)]

Hence, this memo seeks to gain an approval to an underwriting proposal to a maximum of NPR100 Crore to the said IPO by Sanima Equity Fund, Sanima Growth Fund and Sanima Capital collectively with minimum underwriting fees of 0.40% fee.

Presently, our 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 46.045 Crore for Sonapur Minerals and Oil Ltd, leaving an available underwriting capacity of 61.149 crores for Sanima Capital Ltd.

Total underwriting at current date

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| S.N. | Client Name | Sanima Capital | SAEF | SGF | Total |
| 1 | Sonapur Minerals and Oil Ltd. | 460,455,120 | 172,389,600 | 67,206,960 | 700,051,680 |
| 2 | Aushutosh Energy Limited |  | 50,000,000 |  | 50,000,000 |
|  | **Total** | **460,455,120** | **222,389,600** | **67,206,960** | **750,051,680** |

|  |  |
| --- | --- |
| For Sanima Capital Ltd | |
| Net Worth | 357,314,850.00 |
| Allowable Underwriting (Net worth\*3 Times) | 1,071,944,550.00 |
| Already underwritten | 460,455,120.00 |
| In-Principle Approval (Him river-agreement not signed yet) | 266,000,000.00 |
| Available | **345,489,430.00** |

|  |  |
| --- | --- |
| Underwriting capacity available for Sanima Equity Fund(SAEF) | |
| Net Assets of the Scheme | 1,666,285,483.92 |
| No. of Units O/s under Scheme | 130,000,000.00 |
| NAV per Unit | 12.82 |
| Net assets of the Schemes after dividend adjustment | 1,366,354,096.81 |
| NAV per Unit after div adjustment | 10.51 |
| Allowable Underwriting (10% of NAV after div adj) | **136,635,409.68** |

|  |  |
| --- | --- |
| Underwriting capacity available for Sanima Growth Fund(SGF) | |
| Net Assets of the Scheme | 686,139,143.42 |
| No. of Units O/s under Scheme | 67,253,260.00 |
| NAV per Unit | 10.20 |
| Allowable Underwriting (10% of NAV) | **68,613,914.34** |

**Tentative Underwriting Details.**

|  |  |  |  |
| --- | --- | --- | --- |
| Underwriter | Tentative Amount (Crore) | Rate % | Tentative fee (Rs.) |
| Sanima Capital Ltd | 80 | 0.40% | 3,200,000 |
| Sanima Equity Fund | 13.5 | 0.40% | 540,000 |
| Sanima Growth Fund | 6.5 | 0.40% | 260,000 |
| Total | 100 |  |  |

**Background of the company.**

HSPL is a part of the Shanker Group, a conglomerate with a strong presence in Nepal across various industries. This affiliation with the Shanker Group suggests a solid foundation of support and resources, which can contribute to JSPL's growth and success in the steel industry.

Incorporated in 1993 and based in Bara, Nepal, JSPL is a prominent player in the steel manufacturing sector in the region. With its extensive manufacturing capacity and diverse product range, it plays a crucial role in meeting the demand for steel products in Nepal and potentially in neighboring regions.

Share structure of the company is divided into70:30 ratio, 70% is being held by the promoters while 30% has been set aside for public offerings.

**Board & Management Detail**

**Board Member Details**

|  |  |  |  |
| --- | --- | --- | --- |
| S.N | Name | Designation | Remark |
| 1 | Mr. Shahil Agrawal | Chairman | 21 Years of Business and Experience in Industry |
| 2 | Ms. Deepa Agrawal | Director | 15 years of business and Experience in industry |
| 3 | Mr. Deepak Banshal | Director | Work experience in Various industries .30 years in business work experience |
| 4 | Ms. Upasana Paudel | Independent Director | Insurance business, Telecommunications and manufacturing13 years of work in the field Experience |

**Management Details**

|  |  |  |  |
| --- | --- | --- | --- |
| S.N | Name | Designation | Remarks |
| 1 | Mr Anurag Sharma | CEO | 29 years of work in steel industry Experience |
| 2 | Mr Ravi Ranjan Prakash | Executive Director | 30 on Marketing and Merchandising years of experience |

**Financial Highlights  of Jagdambha Steets Pvt Ltd.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 79/80 | 78/79 | 77/78 | 76/77 |
| Paid Up (Arba) | 4.68 | 1.75 | 1.75 | 1.75 |
| Reserves(Arba) | 2.34 | 5.16 | 3.79 | 2.83 |
| Long term Loan(Arba) | 8.22 | 8.62 | 8.01 | 8.17 |
| Short term Loan (Arba) | 11.73 | 14.11 | 14.13 | 9.24 |
| Current Liabilities (Arba) | 17.04 | 17.89 | 17.20 | 11.12 |
| Plant& Equipment (Arba) | 11.43 | 10.43 | 10.52 | 10.01 |
| Current Assets (Arba) | 19.86 | 21.69 | 18.40 | 12.69 |
| Sales (Arba) | 40.17 | 49.74 | 29.56 | 21.10 |
| Gross Income (Crore) | 411.83 | 502.33 | 290.34 | 185.40 |
| Gross profit margin% | 10.25% | 10.10% | 9.82% | 8.31% |
| EBIT (Crore) | 292.82 | 376.26 | 202.62 | 107.69 |
| Finance Cost (Crore) | 298.80 | 220.00 | 94.50 | 127.90 |
| EBT(Crore) | 17.53 | 167.87 | 111.42 | (19.03) |
| EAT(Crore) | 8.61 | 141.96 | 92.55 | (16.07) |
| Net profit margin% | 0.21% | 3.43% | 3.13% | -0.76% |
| EPS | 1.84 | 81.12 | 52.89 |  |
| BVPS | 150.05 | 394.62 | 316.58 | 261.86 |

The Steel industry is highly cyclical in nature and depends largely on the economic growth of the country. Hence, the company is exposed to cyclical trends in supply and demand in the industry, impacting the capacity utilization, revenues and margins

**Capital Market Situation**

Currently, NEPSE is hovering around the 2000 level, exhibiting mostly sideways correction. The market closed at 2,004.30 as of September 27, 2023, with a market capitalization of NPR 3038.69 billion.

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 1-month data for 2080/81, remittances increased by 25.8 percent in NPR terms and 21.5 percent in USD terms. The Balance of Payments maintained a surplus of Rs. 32.90 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. Furthermore, public perception towards the manufacturing sector is notably optimistic.

Below is a list of large companies that have recently raised capital via IPO, 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) | Subscription times | Issue Manager | Market price |
| 7/10/2023 | 7/20/2023 | IME Life Insurance | 236.91 | 9,600,000 | 1,195,932 | 340.50 | 1.50 | Civil Capital Market Ltd. | 532.50 |
| 8/11/2023 | 8/22/2023 | Reliable Nepal Life Insurance | 257 | 9,600,000 | 1,364,353 | 409.40 | 1.66 | Civil Capital Market Ltd. | 479 |
| 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 | 481 |
| 9/5/2023 | 9/15/2023 | Citizens Life Insurance | 244 | 9,000,000 | 1,413,158 | 428.68 | 1.38 | NIMB Ace Capital Limited |  |
| 7/10/2023 | 7/10/2023 | Ghorahi Cements Industry | 435 | 6,911,670 | 557,701 | 339.03 | 1.12 | Himalayan Capital Ltd. | 475.1 |

**Possibility of Under Subscription & their Mitigation**

During the recent past, public offerings have witnessed overwhelming subscription from the investors. There is no Steel 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 will have to buy a maximum of up to its committed number of shares at face value of NPR. 300 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.

Taking into account 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, Sanima Equity Fund and Sanima Growth 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 upto a maximum of NPR 100 Crore to the common stock of the said institution in view of the following:

* The promoters are supported by a team of technically qualified and experienced professionals to run the day-to-day operations of the company
* Brand value of associated promoter group of the institution could be an advantageous for public confidence.
* JSPL has diversified portfolio of iron & steel products that have varied usages across various industries. The company manufactures TMT bar, angles, section, pipes, shutter profile, coils, sheets, different wire products which are produced in various variants as per the demand in the market.
* JSPL sells its products under various brand names all over Nepal with “Jagdamba E”, “Rhino 500D”, “Jagdamba Super Shine”, “Jagdamba Galva+”, “Jagdamba Pipe” and “Jagdamba Wire” being few of the major brands. The company's well-established brand maintains consistent demand and aids in product differentiation from competitors
* The plant site is close to Indo-Nepal borders which has led to saving in freight cost as the majority of raw materials requirements are imported. Further, JSPL has also been exporting its products from FY22 and factory’s proximity to Indian border has eased the export as well.
* The budget for FY23 has focused on high and sustainable growth by building a production-based economy. Cash subsidy up to 8% shall be provided for export of steel products. Concession up to 15% shall be given to industries consuming electricity of NPR 100 Mn or more.

**Thus, this memo seeks your deliberation for onward approval to an underwriting proposal to a maximum of NPR100 Crore to the said IPO by Sanima Equity Fund, Sanima Growth Fund and Sanima Capital collectively with minimum underwriting fees of 0.40% fee applicable for 12 months period from the date of agreement.**