

PRESS RELEASE

SHIVAM HOLDINGS LIMITED

January 2024

Ratings

Facilities	Amount (NPR. Mn)	Ratings
Issuer Rating	NA	IRN BBB- (Is)

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN BBB- (Is) [Triple B Minus (Issuer)]. Issuers with this rating are considered to have the moderate degree of safety regarding timely servicing of financial obligations.

Detailed Rationale

The issuer rating assigned to Shivam Holdings Limited (SHL) derives comfort from its established and resourceful promoter, M/s Shivam Cement Limited (SHIVM, holding ~85% of share in SHL)- supported by its strong board profile and experienced management team. The rating also factors in SHL's average financial profile, a comfortable capital structure and the satisfactory performance of its investee company, M/s Hongshi Shivam Cement Private Limited (HONGSHI), so far. However, these rating strengths are partially offset by SHL's limited track record of operations and revenue, a sizeable and concentrated investment in illiquid promoter shares, minority shareholding in investee company (30%), and the potential funding mismatch. Additionally, the long gestation period associated with prospective investments possess a challenge. Going forward, SHL's ability to generate adequate returns from its investments, identify, evaluate and diversify prospective projects while effectively deploying the funds raised from the proposed public issue will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced and resourceful promoters

The key promoter of SHL is SHIVM, holding ~85% of the shares, while the remaining shares are held by individual promoters. SHIVM is one of the major players in the Nepalese cement industry with an installed capacity of ~0.63 Mn MTPA¹ for its clinker unit and ~0.99 Mn MTPA for its grinding unit. SHIVM manufactures Ordinary Portland Cement (OPC) under the brand, "SHIVAM" and has a strong operating profile, with a 3-year average capacity utilization of ~78% for the clinker unit and ~74% for its cement units for the year ended FY23. Besides SHL's institutional promoter, the individual promoters also possess an extensive track record across various sectors, including banking, manufacturing, trading, insurance, hydropower, and real estate, contributing to the robust business risk profile of SHL. Mr. Shiva Ratna Sharada serves as the Chairman of SHL and the "Sharada Group". With over three decades of experience in sectors such as steel and cement, Mr. Sharada brings valuable expertise to the company. Furthermore, the Board of SHL comprises representatives from the company's promoters, who collectively have extensive experience across a range of business verticals. Additionally, SHL's overall management is overseen by qualified and experienced personnel from SHIVM, who have been deputed to SHL's management team.

Average financial risk profile

¹ Metric Ton per Annum

SHL booked its revenue from FY22 with the receipt of dividend² from its investee company, HONGSHI. SHL generated a revenue of NPR 390 Mn in FY22, which significantly declined by ~45% to NPR 213 Mn in FY23. The overall total operating income (TOI) of the company is expected to remain volatile and contingent on the dividend distribution from HONGSHI over the mid – term. Furthermore, SHL maintains negligible overall gearing ratios, with the company continuing to rely on shareholder’s equity to fund investment and operational activities. As an investment company, the return prospects of SHL largely depend on the performance of its investee company, and the subsequent realization of envisioned returns remains crucial.

Satisfactory performance of investee company so far

The primary source of revenue for SHL is the dividend income from its investee companies. Currently, SHL holds a 30% stake in HONGSHI, with the remaining 70% being held by Hongkong Red Lion Cement No. 3. Limited, a subsidiary of Hongshi Group. As of mid- July 2023, SHL’s investment in HONGSHI amounts to NPR 4,212 Mn. HONGSHI stands as one of the largest cement and clinker manufacturer in Nepal, boasting an installed production capacity of ~2 Mn MTPA for its clinker unit and ~2.30 Mn MTPA for its grinding unit. HONGSHI, currently manufactures Ordinary Portland Cement (OPC) and Portland Pozzolana Cement (PPC) under the brand, “Hongshi”. Despite HONGSHI’s limited track record, as the company came into operation since May 2018, it has benefited from a strong promoter profile and robust systems. The overall performance and capacity utilization of HONGSHI have remained adequate, with a 3-year average capacity utilization of ~93% for the clinker unit and ~39% for its cement units for the year ended FY23. Going forward, the healthy performance of the investee company remains crucial from a revenue perspective.

Key Rating Weaknesses

Limited track record of operations

Established in 2015, SHL was formed as a Special Purpose Vehicle (SPV) by SHIVM in the Joint Venture (JV) with Hongshi Group. Currently, SHL’s sole investment is in HONGSHI. Consequently, SHL’s ability to screen prospective companies, navigate financial markets, fulfil financial commitments while managing its investments and develop effective investment plans and exit strategies remains to be seen.

Sizeable and highly concentrated investment in illiquid promoter shares

SHL’s entire portfolio remains concentrated towards HONGSHI. SHL’s investment remains illiquid with the company being unlisted and SHL holding a minority shareholding of 30%. SHL currently does not have any representative on the Board of HONGSHI with the resignation of two of its previous representatives. SHL reserves the right to nominate two individuals to the Board of Directors of HONGSHI as per HONGSHI’s MOA/AOA³. SHL is in the process of nominating two qualified and experienced promoters to HONGSHI’s Board. Moreover, the overall liquidity profile of SHL is expected to remain challenging over the mid – term in view of SHL’s concentrated portfolio. Nevertheless, SHL intends to utilize the proceeds from the IPO to diversify its portfolio which is expected to reduce SHL’s reliance on HONGSHI to an extent.

Potential funding mismatch along with long gestation period associated with prospective investments

Although, SHL has developed a preliminary plan regarding the sectoral allocation of the funds raised from the IPO, the company is in the process developing a more detailed and refined investment plan which entails the crucial steps of identifying prospective companies, negotiating investment terms, assessing risk-reward ratios, and formalizing agreements such as MOUs. The absence of a finalized plan raises concerns about a potential mismatch in funds, which could significantly impact the company's performance over the mid- term. Furthermore, SHL plans to invest its funds into segments like hydropower, hospitality, infrastructure etc. which typically have long gestation period. Going forward the timely and adequate deployment of funds raised

² Includes bonus and cash dividend received by SHL

³ Memorandum of Association/Article of Association

from the public issue, coupled with SHL's ability to identify prospective projects, negotiate favorable terms and generate adequate returns from these prospective projects is yet to be seen and remains a key rating sensitivity.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

About the Company:

Shivam Holding was incorporated in February 2015 as a private limited company and subsequently converted to a public limited company in June 2022. Initially, Shivam Holdings Limited (SHL) was formed as a special purpose vehicle (SPV) of SHIVM for holding 30% stake in HONGSHI. Currently, SHL intends to diversify its portfolio into various other sectors such as hydropower, manufacturing, financial services, hospitality etc. The major shareholders of SHL include M/s Shivam Cement Limited (85.03%), Mr. Deepak Kumar Jha (6.00%) and Mr. Binod Kumar Shrestha (6.00%).

Financial Indicators (Standalone)

For the year ended* As on	FY21	FY22	FY23
	Audited	Audited	Audited
Total Operating Income (in NPR Mn.)	-	390	213
Tangible Net Worth (in NPR Mn.)	3,809	4,373	4,578
EBITDA Margin (%)	NM	99.53	97.20
Overall Gearing Ratio (x)	-	-	-
Interest Coverage Ratio (x)	NM	NM	NM
Current Ratio (x)	NM	232.56	347.35
Return on Average Assets (%)	-0.02	9.46	4.58

Earnings before Interest Tax Depreciation Amortization (EBITDA)

*Classification as per Infomerics Nepal standards

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About Infomerics Credit Rating Nepal Limited:

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