

# The Pulse

Market Growth, Risks and Outlook

Chaitra 2080

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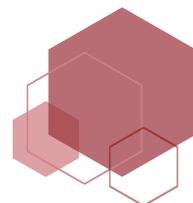
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**Himalayan Capital**

A Subsidiary of Himalayan Bank Limited



## Global Markets Overview

€	1.08 \$ (-0.37%)	S&P 500	5,254.35 (3.64%)
£	1.26 \$ (-0.32%)	BSE SENSEX	73,651.35 (2.05%)
₹	83.35* (0.54%)	NIKKEI 225	40,369.44 (2.96%)
¥	151.33* (0.98%)	FTSE 100	7,952.62 (4.30%)
A\$	0.65 \$ (0.02%)	DAX	18,492.49 (5.06%)
₱	0.74 \$ (0.24%)	CAC 40	8,205.81 (3.16%)
		HANG SENG	16,541.52 (0.03%)
		SSE COMPOSITE	3,041.17 (2.82%)

\*Values Per 1 \$

	<b>Gold(\$)</b> Per Oz. 2,233.48 (9.76%)		<b>Bitcoin(\$)</b> 70,236.30 (12.35%)
	<b>Brent Crude(\$)</b> Per Barrell 86.71 (6.22%)		<b>Ethereum(\$)</b> 3,618.62 (6.85%)

#All Changes are in MoM basis.



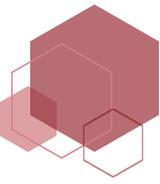
## Currency Market Trends

The Nepalese Rupee (NPR) has depreciated against the US dollar since mid-March, indicating potential economic uncertainty, with a decrease of approximately 0.54%. This depreciation signals a weakening of the local currency, potentially exacerbated by the upcoming Indian elections in 2024, as political events often impact currency markets. While the Euro (EUR) and British Pound (GBP) have shown stability against the US dollar, slight fluctuations suggest ongoing dynamics in the forex market, with the USD maintaining dominance globally.

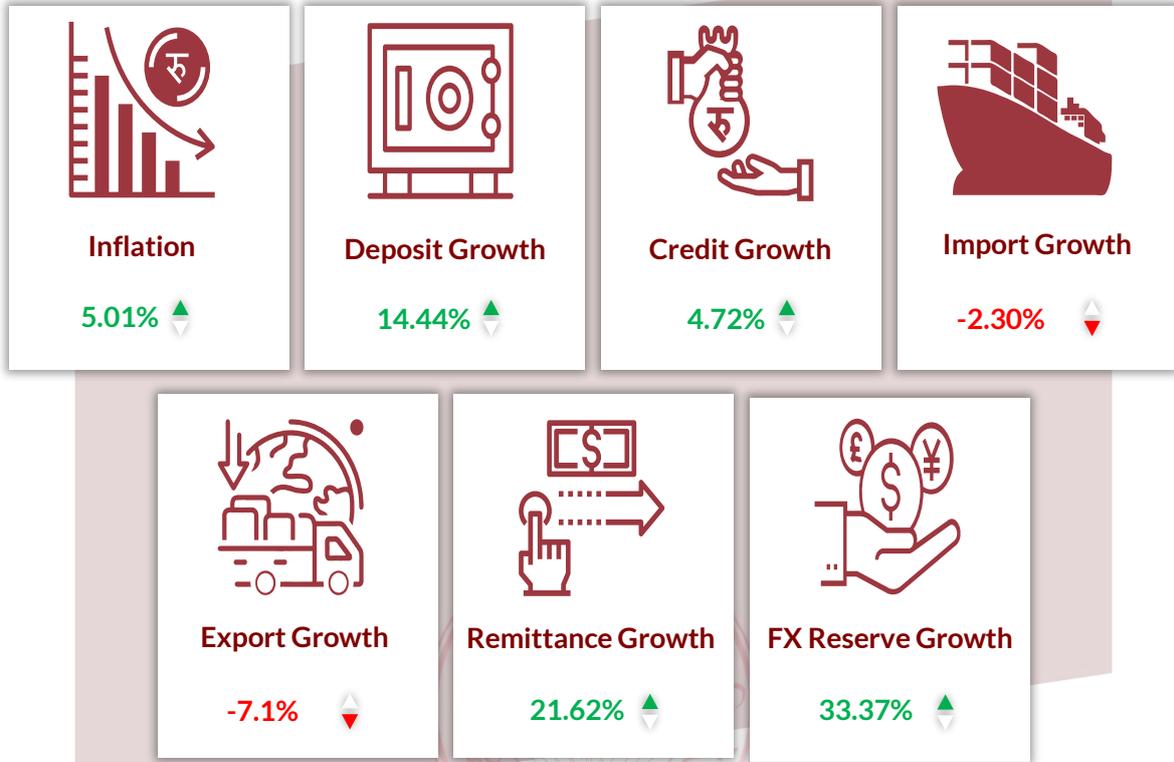
Global equity markets witnessed significant gains last month, with major indices such as S&P 500, BSE Sensex, NIKKEI 225, FTSE 100, DAX, and CAC 40 rising between 2.05% and 5.06%. This surge reflects widespread investor confidence driven by positive economic indicators and improving conditions across regions. However, while the Hang Seng index in Hong Kong saw minimal growth, the SSE Composite index in China rebounded strongly. Despite the bullish sentiment, investors are cautioned about potential risks, including inflationary pressures and geopolitical tensions.

Geopolitical events such as political unrest have heightened demand for safe-haven assets like gold and the US dollar. The gold price has reached an all-time high of 22343.48 USD per ounce, reflecting investors' flight to safety amidst uncertainty. Additionally, the local Nepalese market has witnessed record-high gold prices, reaching NPR 130,000 per tola. These price surges highlight the importance of geopolitical stability in shaping market sentiment and asset valuations, emphasizing the role of safe-haven assets during periods of turmoil.

In conclusion, the financial landscape is influenced by a myriad of factors, including economic indicators, geopolitical events, and central bank policies. The Nepalese Rupee's depreciation against the US dollar, stability of the Euro and British Pound, and heightened demand for safe-haven assets like gold highlight the intricate dynamics at play. While global equity markets experienced significant gains, investors should remain cautious of potential risks such as inflationary pressures and geopolitical tensions. Navigating these complexities requires vigilance and adaptability, ensuring that investment strategies are well-informed and responsive to evolving market conditions.



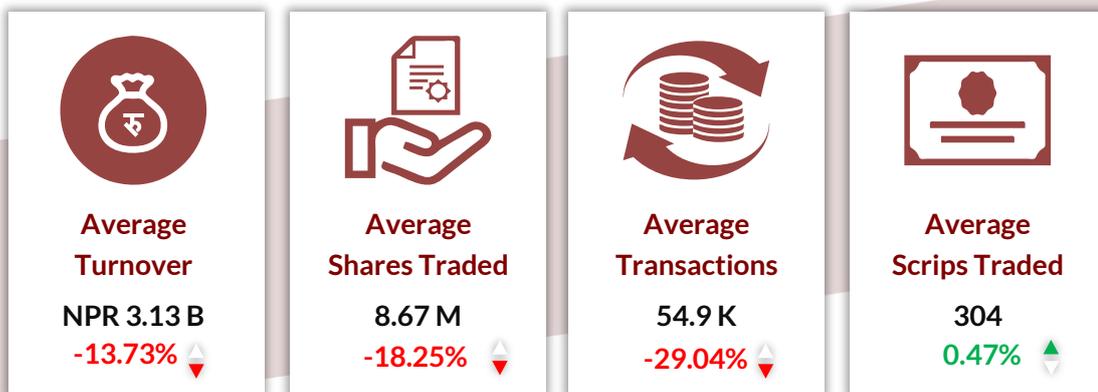
## Macroeconomic Overview



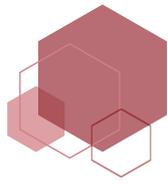
\* Growth refers to the change between seven months of FY 79/80 and FY 80/81.

\* Credit refers to claim on private sector.

## Monthly Trading Statistics



\* For the period (March-1, 2024) - (March-28, 2024)



## Liquidity Overview

### A. Major Rates

Description	Value As On					Change		
	Magh-79	Poush-80	Magh-80	Chaitra 9	Chaitra 16	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	5.90	2.44	3.14	2.50	2.50	-2.76	0.70	0.00
Wt.Avg 91 Days TB rate (%)	9.79	3.57	3.34	2.94	2.94	-6.45	-0.23	0.00
Wt.Avg 364 Days TB rate (%)	10.24	4.38	4.13	3.25	3.25	-6.11	-0.25	0.00
Wt. Avg Interbank Rate (%)	5.28	2.83	3.04	2.75	2.76	-2.24	0.21	0.01
CapEx (In Billion NPR)	69.86	49.24	63.58	87.31	89.86	-6.28	14.34	2.55

### B. BFI Statistics

Description	Value As On					Change		
	Magh-79	Poush-80	Magh-80	Chaitra 9	Chaitra 16	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	8.41	7.32	7.01	7.01	7.01	-1.40	-0.31	0.00
Wt. Avg Lending Rate (%)	13.03	11.38	11.08	11.08	11.08	-1.95	-0.30	0.00
Base Rate (%)	10.72	9.35	9.06	9.06	9.06	-1.66	-0.29	0.00
CD Ratio (%)	86.28	80.26	80.01	79.64	79.64	-6.27	-0.25	0.00
Fixed Deposits/Total Deposits (%)	59.59	59.51	59.34	59.34	59.34	-0.25	-0.17	0.00
Total Liquid Assets/Total Deposits (%)	23.50	27.11	26.62	26.62	26.62	3.12	-0.49	0.00

## Public Debt Subscription

Category	Issue Date	Offered Amount	Payment By GoN	No. of Participants	No. of Bids	BID Ratio	Allocated Amount	Discount Rate		
								Lowest	Highest	Average
28 Days	Chaitra 6	500.00	0.00	19	68	5.08	500.00	2.45	2.49	2.49
91 Days	Falgun 22	604.50	0.00	24	91	5.30	604.50	2.74	2.83	2.79
182 Days	Chaitra 6	430.00	0.00	18	60	4.64	430.00	3.05	3.12	3.10
364 Days	Chaitra 6	900.00	0.00	20	80	2.59	900.00	3.15	3.39	3.32

\*Figures are in Millions NPR



## Sectoral Movement

Index	Falgun 17	Chaitra 15	Change
NEPSE	1,972.09	2,035.64	3.22%
Microfinance	3,488.80	3,890.09	11.50%
Finance Company	1,743.04	1,927.61	10.59%
Manufacturing & Processing	6,680.90	7,270.86	8.83%
Development Bank	3,818.91	3,960.74	3.71%
Life Insurance	9,860.33	10,219.36	3.64%
Hotels & Tourism	5,015.70	5,178.54	3.25%
Mutual Fund	17.92	18.37	2.51%
Investment	74.72	76.46	2.33%
Non Life Insurance	10,286.68	10,452.84	1.62%
Hydropower	2,459.60	2,495.22	1.45%
Commercial Bank	1,061.07	1,070.60	0.90%
Others	1,674.06	1,686.65	0.75%
Trading	2,807.93	2,792.93	-0.53%

## Major Movers

PPL	66.99%	BNT	-19.76%
DLBS	63.58%	BNL	-15.30%
GUFL	50.94%	MHCL	-14.06%
GLBSL	43.93%	CKHL	-13.28%
WNLB	41.45%	BPW	-12.19%



# Sectoral Divergence-Turnover

Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	3.63 B	3.13 B	-13.73%
Microfinance	0.18 B	0.34 B	81.95%
Finance	0.16 B	0.29 B	77.28%
Manufacturing And Processing	0.36 B	0.57 B	59.57%
Tradings	0.01 B	0.02 B	38.61%
Development Banks	0.16 B	0.17 B	1.36%
Hydro Power	1.23 B	0.98 B	-20.46%
Commercial Banks	0.27 B	0.20 B	-25.03%
Life Insurance	0.31 B	0.23 B	-27.50%
Others	0.27 B	0.19 B	-29.81%
Non Life Insurance	0.21 B	0.14 B	-32.24%
Investment	0.24 B	0.15 B	-37.96%
Hotels And Tourism	0.10 B	0.06 B	-43.93%

## Highest Turnover



## Highest Volume





# NEPSE Outlook

## A. Current Overview



On March 31, 2024, the flagship NEPSE index concluded at 2,018.33 points, with a monthly average turnover reaching NPR 2.99 billion signifying a slight decrease compared to the previous month's average turnover of NPR 3.09 billion.

As of the above aforementioned date, the Relative Strength Index (RSI) stands at 42.50 points, placing it within the neutral zone. A bearish crossover has been identified based on the 20-day and 50-day Simple Moving Average (MA).

The Moving Average Convergence and Divergence (MACD) indicator suggests a potential short to midterm bearish trend, indicating a bearish crossover between the MACD line and the signal line.

Looking ahead, the NEPSE index's immediate support levels are identified as (S1) 2,000, (S2) 1,980, and (S3) 1,950, while immediate resistance levels are recognized at (R1) 2,100, (R2) 2,150, and (R3) 2,200. These support and resistance levels serve as valuable indicators for investors when formulating trading decisions.



## B. Long Term Overview



As observed in the monthly chart above, NEPSE has experienced a nearly 40% decline from the peak of the recent bull-run and appears to be consolidating around the resistance zone of the 2,100 - 2,200 level. This level has been tested multiple times in the past 1.5 years. The future trajectory of the index is crucial for further analysis, especially given that, as of now, the flagship NEPSE index has not surpassed this resistance zone. It reached a recent high of 2,215 on January 17, 2024, following the quarterly monetary policy review by NRB for the 1st quarter of FY 80/81.

If the index breaches the supply zone and rises above 2200 levels, the immediate resistance zones would be at 2,370, 2,460, and 2,600 levels (psychological resistance zones) as illustrated in the above figure.

Considering the NEPSE index's repeated failure to breach the 1,800-level, it is reasonable to consider it as the bottom of the ongoing bearish cycle (historical support zone).

Conversely, if the index breaks the demand zone and falls below 1,800 levels, the long-term support zone would be at 1,750, 1,600 and 1,560 levels (psychological support zones) as shown in the above figure.



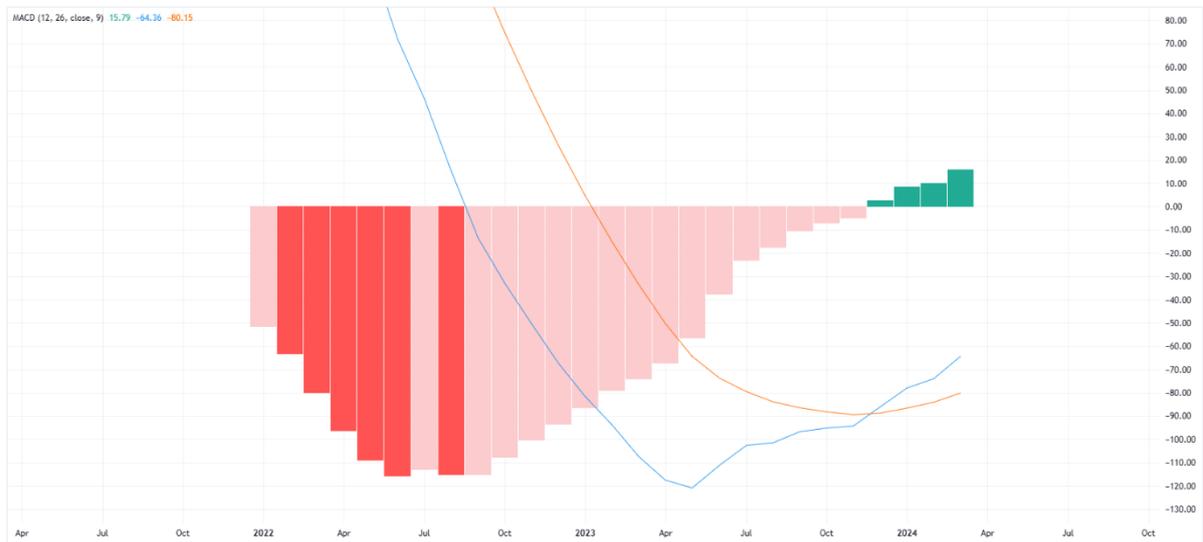
# SCRIPT ANALYSIS

## Shivam Cement Limited (SHIVM)

### A. Technical Analysis (Long Term)



TradingView



TradingView

Based on the monthly chart of SHIVM, an ascending triangle pattern has been observed, with the long-term resistance of 560 - 570 being tested repeatedly. However, this time, it has also been supported by a MACD crossover on the monthly timeframe.



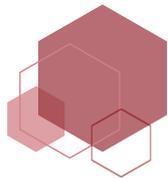
## B. About the Company

Founded in 2003 and commencing cement production in 2011, Shivam Cement is Nepal's largest Greenfield manufacturing project. Dedicated to supplying quality Ordinary Portland Cement (OPC) to the local market, it converted into a Public Limited Company in 2015, becoming the first public limited Cement Company with 100% Nepali investment listed on the stock market. By tapping into Nepal's limestone deposits, Shivam Cement introduced OPC 43 Grade cement initially, later expanding to include OPC 53 Grade Cement, thereby reducing the country's reliance on imported cement. Located in Hetauda, an industrial hub undergoing rapid development, its state-of-the-art facilities boast advanced technology and infrastructure. Access to self-owned limestone deposits ensures high-grade lime content with low alkali, magnesia, and chloride levels, crucial for concrete durability. Adopting European standard German and Danish technology for cement grinding ensures superior quality and controlled particle size distribution. Moreover, the company's commitment to environmental sustainability is evident through investments in pollution control equipment, promoting a clean and green environment. Shivam Cement's products support sustainable construction practices, aligning with global efforts for a greener future. Emerging as a market leader in a short span, it has become a driving force for Nepal's cement industry growth, known for its dedication to quality, innovation, and environmental responsibility.

The company's main products include Shivam Cement OPC 53 Grade and OPC 43 Grade. It is the only cement company in Nepal that produces OPC Cements. So far, the company has been the largest producer and seller of OPC cement. Its primary market area is Bagmati Province, in addition to most parts of Koshi Province, Madhesh Province, and Gandaki Province. Additionally, the company supplies cement to major national pride projects and projects in Lumbini Province, Karnali Province, and Sudur Pashchim Province. The company has successfully established a leading presence in almost all regions as a leading brand in the areas where it sells its products.

According to its annual report, the company conducts site visits to construction sites of the customers who purchase products from Shivam Cement for their construction projects. During these visits, they provide training, instruction, and advice to the construction workers on how to use the cement, and they also conduct quality tests on the cement, all at no cost. This is facilitated by their technical team consisting of experienced engineers. This initiative has been ongoing for the past few years through their van service, which they plan to continue in the upcoming years.

Shivam Cement Limited's subsidiaries include Shivam Holdings Limited, in which it holds an 85% stake, and SCL Investment Private Limited. According to the company's website, Shivam Holdings Limited envisions investing across diverse sectors such as



manufacturing industries, hydro, tourism, infrastructure, financial institutions, and exploring other investment avenues. Presently, this subsidiary has ventured into one investment, namely Hongshi Shivam Cements Private Limited.

Hongshi Shivam Cements, in which Shivam Holdings holds a 30% stake, stands as Nepal's largest clinker-based cement manufacturing company with a production capacity of 6000 tons per day for both cement and clinker manufacturing. Consequently, Shivam Cement Limited indirectly holds a substantial stake of approximately 25.50% in this venture.

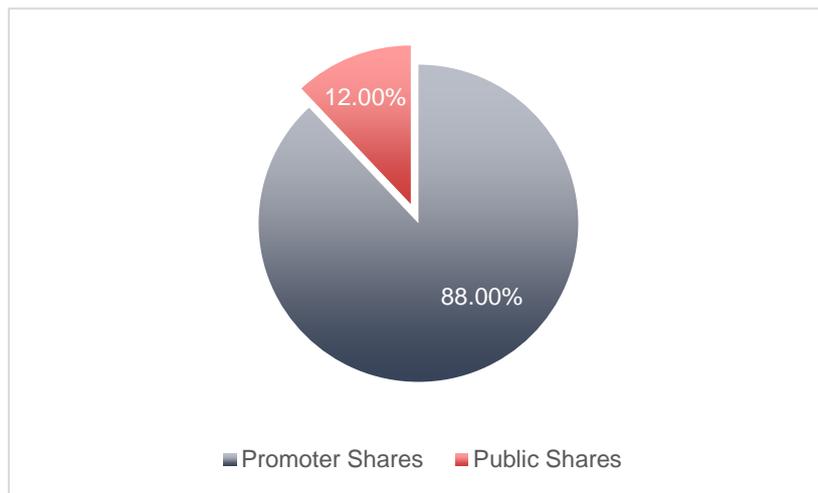
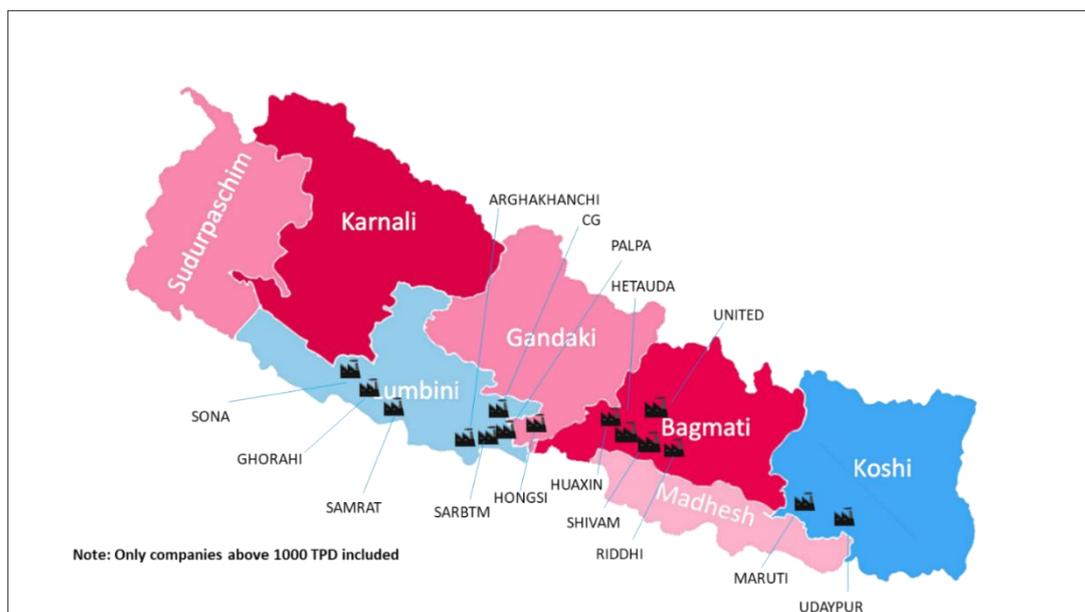


Figure: Shareholding Pattern (SHIVM)

Note: Shareholding Pattern of SHIVM is as per Nepalstock.com Updated On Jan 3, 2024.

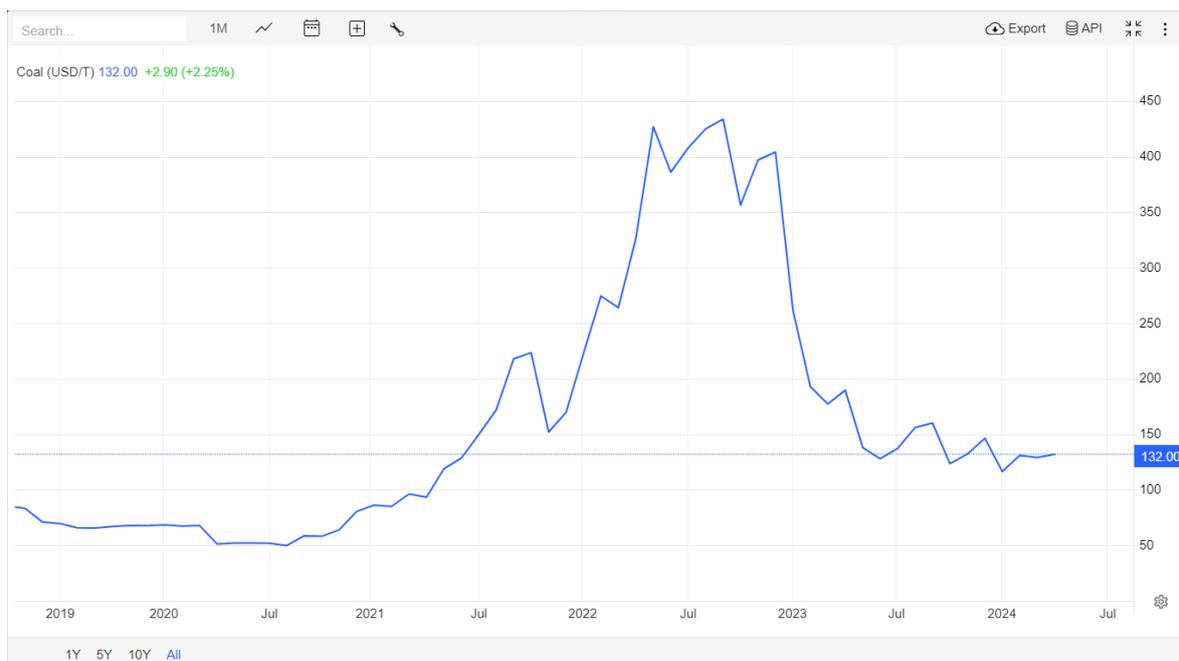
## Regional Dynamics





Cement, being a bulk commodity, is a freight-intensive industry, and long-distance transportation can prove to be uneconomical. This has resulted in cement being largely a regional play, with the industry divided into three main regions: Western, Central, and Eastern regions. Most cement plants are located in the Western region of Lumbini Province, which is very close to the border of India, benefiting from exporting cement to India. Meanwhile, the Central region of Bagmati Province has saturated cement plants, and if companies expand their capacities in the future, there could be an oversupply situation leading to a potential price war to sustain long-term business viability. Whereas in the eastern region, players are very much limited and cement being a regional play, is very much subjected to regional demand-supply dynamics. Any adverse developments on this front may impact the company's realization levels and consequently its profitability. Adverse and unforeseen changes, such as demand slowdown, may lead to non-absorption of the extended capacity, which could affect the future earnings of the company.

## COAL



The recent correction in fuel prices, including Pet Coke and Coal, presents a favorable outlook for the cement industry. This correction is expected to enhance margins, benefiting companies in coming days. Additionally, if cement companies initiate various cost optimization exercises across their operating facilities, this will contribute to margin improvement. With anticipated better capacity utilization, a favorable demand environment, and robust cost control measures, the companies' EBITDA margins are expected to grow.



## SWOT Analysis

### Strengths

**Robust Financial Profile:** Shivam Cement maintains a low gearing ratio and healthy interest coverage ratio, reflecting its strong financial stability.

**Operational Experience:** With over a decade of experience, Shivam Cement has cemented its position as a leading brand in Nepal's cement industry, showcasing strong market presence and brand recognition.

**Partially-Integrated Operations:** The company's cement mill, which is partially integrated and equipped with substantial installed capacity, offers operational flexibility and enhances efficiency.

**Experienced Management:** Supported by professionals from reputable business backgrounds, Shivam Cement benefits from a skilled management team with extensive industry knowledge and expertise.

**Strong Market Position:** Shivam Cement holds a prominent position as one of Nepal's primary suppliers of ordinary Portland cement (OPC), enjoying both brand loyalty and dominance in market share.

### Weaknesses:

**Margin Pressures:** The company contends with margin challenges arising from escalating input costs and intense industry competition, leading to a decline in operating profit margins.

**Working Capital Intensity:** Elevated working capital intensity places strain on liquidity management, with prolonged debtor and inventory turnover adversely affecting cash flow.

**Perishability Concerns:** Cement products exhibit limited shelf life, with quality deterioration occurring after three months, presenting challenges for inventory management and distribution.

### Opportunities:

**Infrastructure Development:** Government investments in infrastructure projects present opportunities for heightened cement demand, especially in road construction and urban development.



**Geographic Expansion:** Leveraging its strong liquidity position, Shivam Cement can explore expansion into new geographic markets or strategic investments to capitalize on emerging opportunities.

**Hydropower Sector:** Enhancing cement certification and quality can position Shivam Cement as a supplier to the burgeoning hydropower industry, offering long-term growth prospects.

**Urbanization:** Nepal's expanding urban population creates a consistent demand for construction materials, offering avenues for sustained growth and market expansion.

### **Threats:**

**Policy Instability:** Political unrest and regulatory uncertainty in Nepal present risks of business disruptions and regulatory challenges, impacting operations and profitability.

**Community Resistance:** Environmental concerns and local community protests against cement plants may result in operational delays and reputational damage, affecting the company's image and performance.

**Demand-Supply Dynamics:** Shifts in demand-supply dynamics and market competition could affect revenue stability and profitability, necessitating agile responses to market changes.

**Cost Volatility:** Fluctuations in raw material prices and currency exchange rates pose risks to production costs and profit margins, contributing to operational uncertainties.

**Competitive Landscape:** Intense competition within the cement industry, coupled with limited pricing flexibility, poses challenges in maintaining market share and profitability amidst aggressive competitor strategies. Moreover, the limited shelf life of cement after three months affects inventory management and distribution efficiency.

**Cyclical Demand:** Vulnerability to seasonal fluctuations and cyclical demand patterns presents challenges to capacity utilization, revenue generation, and profitability.



## Comparative Annual Performance Visualizations

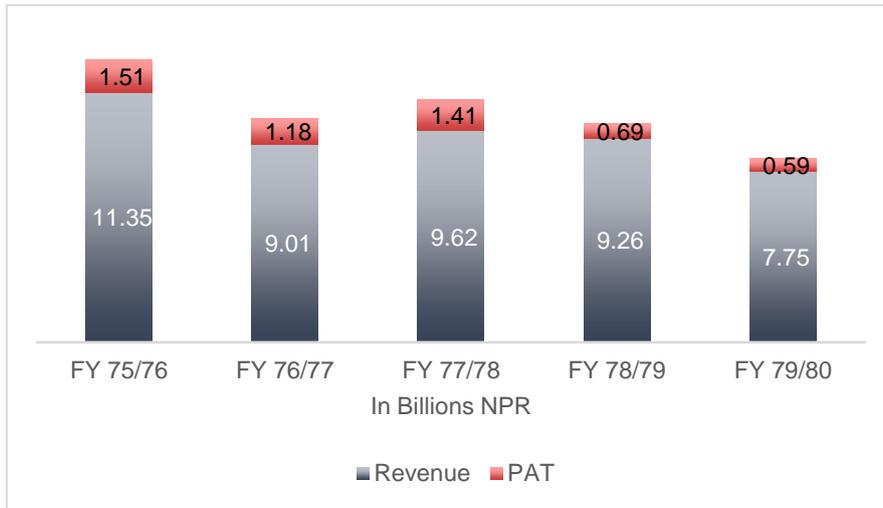


Figure: Annual Comparison of Revenue and Profit after Tax

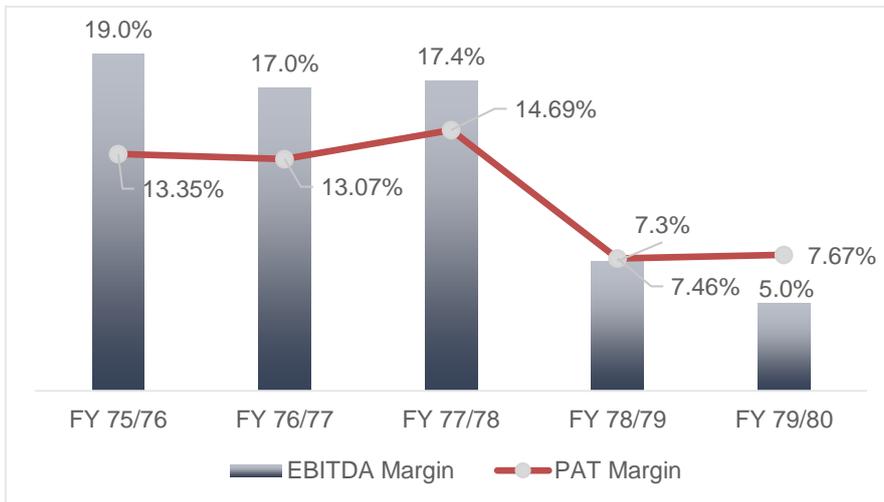


Figure: Annual comparison of EBITDA Margin and PAT margin Income

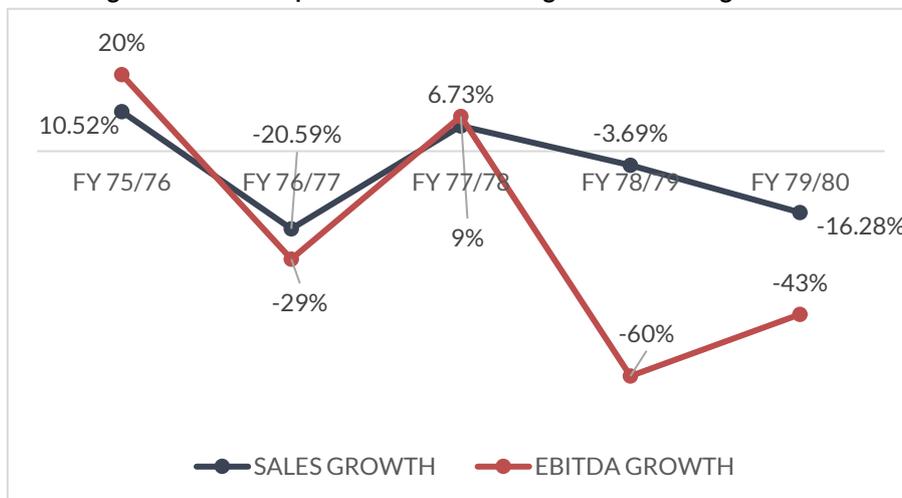


Figure: Annual Comparison of Sales & EBITDA Growth (%)

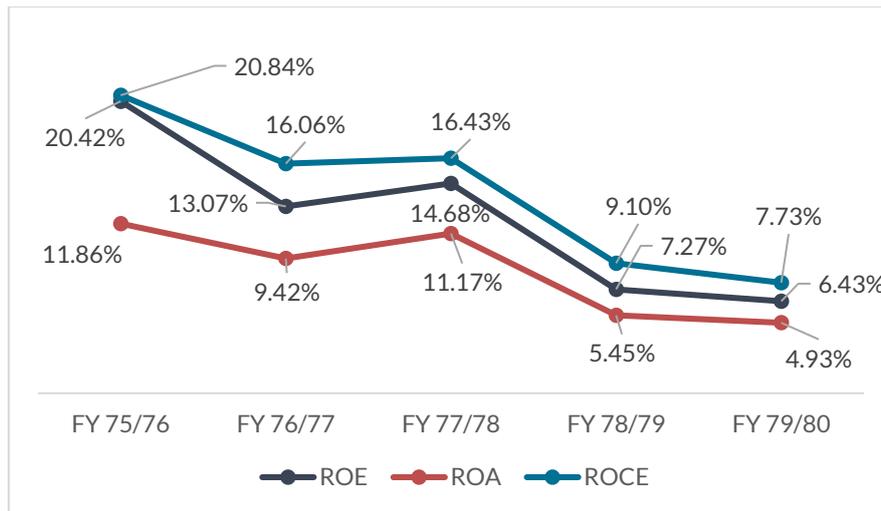
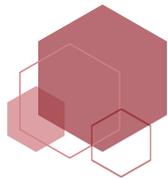


Figure: Annual Comparison of Return on Capital employed, Return on Asset and Return on Equity

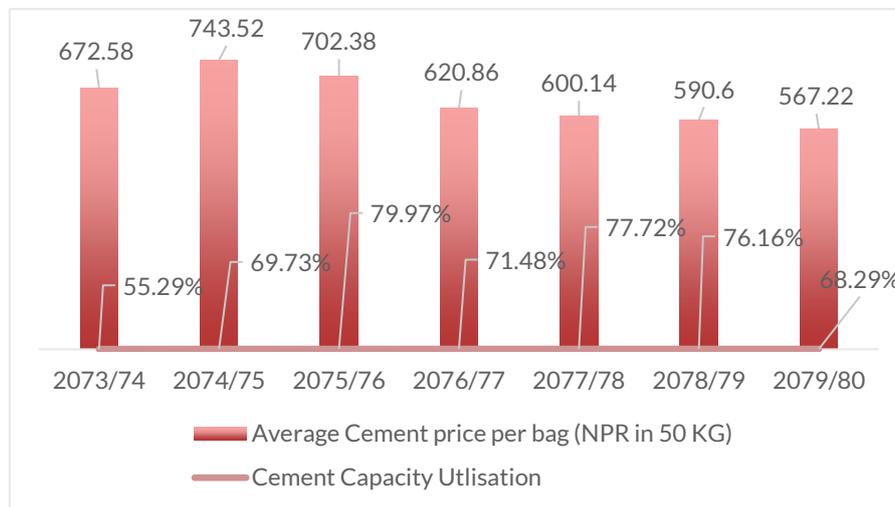
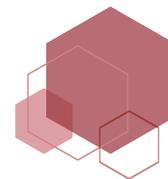


Figure: Annual Comparison of Average Cement price and Cement Capacity Utilization

### Comparable Company Analysis

Name of Cement	CMP (in NPR)	Market Cap (Billions)	Capacity (TPD)	EV (Billions)	Debt / Equity	EV / Ton	Cost / Ton	PBT/T on	GPM %	NPM %	ROE %	RO CE %
Sarbottam	974.50	45.31	3000	49.35	0.50	47932	3782	261	27.6	4.0	3.0	6.0
Shivam	532.00	26.74	3000	27.56	0.11	23677	5556	559	16.6	7.7	6.4	7.7
Sonapur	477.10	14.67	2300	21.33	2.52	41235	2340	305	31.8	8.1	1.4	4.2
Ghorahi	505.00	23.07	3400	34.45	1.07	34149	3604	391	21.4	1.4	0.7	2.3
Average		27.45	2,925.00	33.17	1.05	36748.25	3820.62	379.22	24.3	5.3	2.9	5.1
Median		24.91	3,000.00	31.01	0.79	37691.88	3693.15	348.20	24.5	5.8	2.2	5.1

Figure: Comparable Company Analysis as of FY 2079/80  
Note - Current Market Price is as of 31<sup>st</sup> March, 2024



## Comparable Company Summary

Based on a comparable company analysis, SHIVM exhibits the lowest debt/equity ratio of 0.11 among its peers, indicating effective management of borrowings over time. Additionally, despite its highest cost per ton of around 5556, the company demonstrates efficiency with the highest profitability, boasting a PBT (Profit Before Tax) per ton of 559. Furthermore, SHIVM boasts an above-average net profit margin, standing at around 7.7%. SHIVM also achieves the highest ROE (Return on Equity) and ROCE (Return on Capital Employed), at 6.4% and 7.7% respectively, indicating efficient use of resources.

## DuPont Analysis

Particulars	Specifics	FY 75/76	FY 76/77	FY 77/78	FY 78/79	FY 79/80
Tax Burden	Net Profit / Pre-Tax Income	83.27%	83.79%	83.27%	83.50%	91.36%
Asset Turnover	Revenue / Avg. Total Assets	0.89x	0.72x	0.76x	0.73x	0.64x
Financial Leverage	Average Total Assets / Avg. Equity	1.72x	1.39x	1.31x	1.33x	1.31x
Interest Burden	Pretax Income/ Operating Income	120.09%	119.34%	120.09%	119.76%	109.45%
Operating Margin	Operating income/ Revenue	13.35%	13.07%	14.69%	7.46%	7.67%
<b>Final Return on Equity</b>		<b>20.42%</b>	<b>13.07%</b>	<b>14.68%</b>	<b>7.27%</b>	<b>6.43%</b>

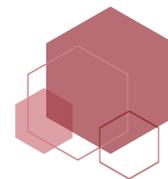
Figure: DuPont Analysis

## DuPont Summary

ROE of SHIVAM exhibited significant decrease, decreasing from 20.42% to 6.43% between FY76 and FY80. The decrease in ROE for FY80 is attributed to a reduction in net profit margins and a drop in asset efficiency, which plummeted by nearly 27% from 0.89x in FY76 to 0.64x in FY80, as a result of economic slowdown.

## Altman Z-Score Analysis

Z'-SCORE ABOVE 2.9 - The company is deemed *Safe* based on the given financial figures only.  
 Z'-SCORE BETWEEN 1.23 and 2.9 - On Alert. This is the grey zone and one should exercise *Caution*.  
 Z'-SCORE BELOW 1.23 - Probability of *Financial Embarrassment* is very High.



## Altman Z-Score Summary

Ratio	Weight	75/76	%	76/77	%	77/78	%	78/79	%	79/80	%
EBIT / Total Assets	3.30	18.3%	60.5	12.7%	42.0	13.2%	43.5	7.3%	24.0	6.3%	20.8
Net Sales / Total assets	1.00	88.8%	88.8	73.7%	73.7	73.6%	73.6	75.4%	75.4	65.4%	65.4
Book Value of Equity / Total Liabilities	0.60	204.1%	122.5	337.9%	202.7	302.5%	181.5	297.7%	178.6	362.2%	217.3
Working Capital / Total assets	1.20	17.0%	20.4	13.2%	15.9	15.4%	18.5	12.1%	14.5	11.7%	14.0
Retained Earnings / Total Assets	1.40	28.2%	39.4	33.5%	46.8	34.0%	47.7	31.6%	44.2	33.8%	47.3
<b>Altman Z-Score</b>			<b>3.32</b>		<b>3.81</b>		<b>3.65</b>		<b>3.37</b>		<b>3.65</b>

The Altman Z score for the four-year average from 2075/76 to 2079/80, which is 3.56, suggests that the company is in a strong position.

## Capacity Utilization of listed cement companies

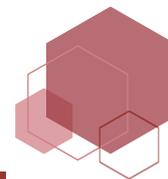
Name of Cement	Cement Production Capacity (TPD)	Annual Capacity	2077/78	2078/79	2079/80	3Y Average	3Y Median
Sarbottam	3,000.00	990,000.00	56.58%	68.10%	49.82%	58.17%	56.58%
<b>Shivam</b>	<b>3,000.00</b>	<b>990,000.00</b>	<b>77.72%</b>	<b>76.16%</b>	<b>68.29%</b>	<b>74.06%</b>	<b>76.16%</b>
Sonapur	2,300.00	759,000.00	19.41%	24.45%	36.64%	26.83%	24.45%
Ghorahi	3,400.00	1,122,000.00	49.36%	38.13%	43.43%	43.64%	43.43%

The depicted figure reveals that SHIVM has demonstrated exceptional efficiency in resource utilization, enabling it to produce more cement than its industry counterparts. The company's ownership of its cement mines has proven to be a significant advantage, contributing to its superior performance in this aspect.

## Debtor Analysis

Figure: Debtor Analysis

Particulars	FY 75/76	FY 76/77	FY 77/78	FY 78/79	FY 79/80	Average	Median
Revenue (In Billion)	11.35	9.01	9.62	9.26	7.75	-	-
Revenue Growth%	11%	-21%	6.73%	-3.69%	-16.28%	-4.66%	-3.69%
Receivables (In Billion)	1.90	1.95	1.78	1.65	1.42	-	-
Receivables Growth %	57.16%	2.18%	-8.61%	-7.41%	-13.54%	5.96%	-7.41%
Receivables % of Revenue	<b>16.78%</b>	<b>21.59%</b>	<b>18.49%</b>	<b>17.77%</b>	<b>18.35%</b>	<b>18.60%</b>	<b>18.35%</b>



Particulars	FY 75/76	FY 76/77	FY 77/78	FY 78/79	FY 79/80	Average	Median
Total Assets (In Billion)	12.77	12.22	13.07	12.28	11.86	-	-
Receivables % of Total Assets	14.90%	15.92%	13.60%	13.40%	11.99%	13.96%	13.60%
Receivables Days	61days	79days	67days	65days	67days	68days	67days
Receivables Turnover Ratio	11x	6x	5x	5x	5x	6x	5x

### Debtor Analysis Summary

**Receivables Turnover Ratio:** The receivables turnover ratio has witnessed a steady decline from 11x in FY76 to 5x in FY80; however, this decline has yet to significantly impact the overall capabilities as the figure remains attractive.

**Receivables Days:** Similar to the receivables turnover ratio, the receivables days have also maintained stability at 67 days (median) over the past five years. This further confirms that Shivam Cement Limited's collection period has remained consistent during this period.

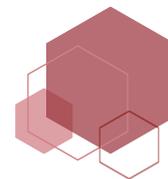
**Receivables as a % of Revenue:** The data indicates that over the past five years, receivables have grown at a rate surpassing that of revenue for Shivam Cement Limited. This suggests that the company's growth may not be optimally aligned with its ability to efficiently collect dues from customers. However, it's worth noting that receivables constitute a relatively modest portion of revenue, consistently ranging between 16.78% and 21.59% throughout the five-year period.

### Cash Conversion Cycle

Particulars	FY 77/78	Industry Average	FY 78/79	Industry Average	FY 79/80	Industry Average
Inventory Days	128 Days	147 Days	125 Days	172 Days	119 Days	292 Days
Days Receivable	71 Days	76 Days	67 Days	93 Days	72 Days	121 Days
Days Payable	98 Days	64 Days	86 Days	60 Days	95 Days	95 Days
Cash Operating Cycle in days	198 Days	223 Days	192 Days	265 Days	192 Days	413 Days
Cash Conversion Cycle	100 Days	159 Days	106 Days	205 Days	96 Days	317 Days

Figure: Cash Conversion Cycle of SHIVM

Note: For Industry Average, industry means cement companies listed in NEPSE



When compared to industry averages, SHIVM demonstrates superior working capital management compared to its peers listed on the stock exchange, as illustrated in the above figures.

### Financial Ratio Analysis

Particulars	FY 77/78	Industry Average	FY 78/79	Industry Average	FY 79/80	Industry Average
ROE	14.68%	13.76%	7.27%	5.45%	6.43%	3.83%
ROA	11.17%	7.02%	5.45%	2.88%	4.93%	2.04%
ROCE	16.43%	11.52%	9.10%	6.63%	7.73%	5.06%
DE Ratio	6.92%	89.20%	6.76%	94.38%	4.01%	75.36%
Interest Coverage Ratio	65.15	19.78	13.66	4.91	7.73	3.06
EPS	32.11	24.80	15.70	18.64	13.52	8.62
Gross Profit Margin	35.94%	30.39%	18.56%	23.53%	16.58%	24.35%
Net Profit Margin	14.69%	11.48%	7.46%	5.73%	7.67%	5.28%

**Figure: Financial Ratio Analysis**

**Note: For Industry Average, industry means cement companies listed in NEPSE**

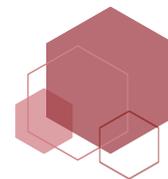
### Analysis of Cash Flow Statement of SHIVM

Particulars	2075/76	2076/77	2077/78	2078/79	2079/80
FCFF in 000'	2,337,264.96	2,714,779.24	1,402,300.72	987,019.06	1,176,359.14
FCFE in 000'	(429,634.00)	1,021,251.00	1,814,410.00	876,306.78	848,351.27
Number of shares in 000'	38,720.00	44,000.00	44,000.00	44,000.00	44,000.00
FCFF per share	60.36	61.70	31.87	22.43	26.74
FCFE per share	(11.10)	23.21	41.24	19.92	19.28
Cash Dividend	15.79	24.21	29.00	10.53	0.75
EPS	37.95	26.75	32.11	15.70	13.52
Cash Dividend / FCFE	-142.30%	104.31%	70.33%	52.87%	3.89%
Cash Dividend / EPS	41.60%	90.50%	90.33%	67.08%	5.55%

**Note -  $FCFF = EBIT \times (1 - Tax Rate) + Depreciation - Capital Expenditure - Change in Net Working Capital$**

**$FCFE = Cash Flow from Operations - Capital Expenditure + Net Borrowing - Interest Expense$**

**Tax rate is 18%**



## C. Stock Valuation

After conducting thorough analysis, we performed the valuation of Shivam Cement Limited (SHIVM) utilizing the Discounted Cash Flow (DCF) Method considering three distinct scenarios: bear case, base case, and bull case.

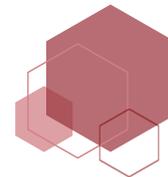
### I. Key Variables used for Valuation:

1. Sustainable Growth Rate for longer period projection to calculate terminal value (Average Last 12 years GDP growth rate and Projected GDP growth rate for this FY by the World Bank) = 3.93%
2. Other specifics are as follows:

Specifics	Value	Remarks
Adjusted Beta ( $\beta$ )	1.17	Assumption - The raw beta of the last 59 months, will move towards the market beta of 1 over time
Market Return ( $R_m$ )	11.21%	CAGR of closing prices of NEPSE from FY 2001/02 to FY 2022/23
Risk Free Rate ( $R_f$ )	5.15%	Latest Development Bond Rate adjusted for tax rate of 6%
Cost of Equity ( $K_e$ )	12.26%	As per CAPM Model
Cost of Debt ( $K_d$ )	10.78%	As Per Average Lending Rates of Commercial Banks since mid-February, 2014
Tax Rate	18.00%	As per annual report
WACC	12.02%	Discount rate for the valuation (based on DE ratio of 0.07 as of 2080/81 Q2)

### Other assumptions:

- ✓ Our internal projections have been done up to FY 2084/85
- ✓ In the bear case, contingent liabilities with NEA that is NPR 1.27 has been deducted in full amount, while in the bull and base, the contingent liabilities have been assigned a probability of 0% and 50% respectively
- ✓ The investment in the promoter shares of Prabhu Bank Limited (PRVUP) has been accounted as marketable securities
- ✓ Income from non-operating income such as interest income, dividends from subsidiaries and associates, etc. have not been accounted for
- ✓ We assume that there will be no significant CAPEX because we assume there will be no increment in cement and clinker production capacity, so a maintenance CAPEX of NPR 128.16 million has been accounted in each 5 years of projections, which is the average from FY 2076/77 to FY 2079/80, in all the three scenarios
- ✓ Working capital assumptions are different as per the three different scenarios



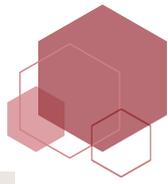
- ✓ COGS, Administrative Expenses excluding depreciation, and Selling and Distribution Expenses margins are different in all 3 scenarios
- ✓ Depreciation has been forecasted at 1.74% of total revenue across all three scenarios, departing from historical averages. This adjustment reflects recent changes in the company's asset lifespan policies. Notably, the company extended the lifespan of its Plant and Machinery from 15 years to 35 years, Furniture and Fixtures from 8 years to 10 years, Mines and Development from 20 years to 30 years, and Buildings from 30 years to 50 years. Given these alterations, we anticipate a consistent margin of 1.74% in depreciation for FY 2079/80 to persist throughout the forthcoming five-year period
- ✓ The total debt of the company including both current and non-current borrowings is NPR 707.22 million, and the cash balance is NPR 194.05 million as of FY 2080/81 Q2
- ✓ The total outstanding shares of the company is 50,270,000 as of FY 2080/81 Q2

Based on above assumptions and variables, the final average valuation of SHIVM based on DCF Approach has been computed, which has been tabulated below based on 3 different scenarios:

DCF Valuation	Valuation Price
Bear Case	203.32
Base Case	350.36
Bull Case	579.65

**Key discussions from the Annual General Meeting (AGM) held on January 12, 2024, at Rastriya Sabagriha, Pradarshani Marga, Kathmandu:**

Suggestions / Questions Raised	Company's reply
About product planning and promotion	The company targets to increase the sales in this FY and will also focus on sales recovery from its customers.
About disclosures	The chairman mentioned that the disclosures for this FY would be more transparent
Tax on share premium.	As the company has kept its share premium fund untouched, the company is not liable to pay any tax on share premium as cash dividend were distributed out of retained earnings.
About the exit of promoters	One of the directors mentioned that it is not wrong to exit partially as done by the promoters.



About the decrease in marketing to sales ratio	The company intentionally cut down its marketing budget last FY in order to sustain itself and decrease the cost. The company is currently focusing on decreasing its production costs
About strategic alliances (if any)	The company mentioned that as they could get more price for cements in Nepal than in India, they have not focused on this plus there is very less demand of OPC Cements in India, which is one of the major products of the company
About supply chain efficiency	The company replied that there has been shrinkage in margins but they are trying to increase the cost efficiency through effective supply chain.
About use of Dhankuta mine	Investment for Dhankuta mine was done 4 years back, at that time there were talks to establish a unit in the eastern region which could not materialize, however the company is now using this mine, to sell raw materials to the local cement industries in the eastern region
About mergers & acquisitions	The company has been studying some cement industries for possible acquisitions especially those that are distressed at current date.

## D. Conclusion

Following the valuation process, which yielded price ranges between 203.32 and 579.65 under different scenarios, Shivam Cement Limited emerges as a resilient player in Nepal's cement industry. The company leverages its robust financial profile, operational experience, and strong market position. Despite facing challenges such as margin pressures, working capital intensity, and perishability concerns, Shivam Cement is well-poised to capitalize on various opportunities, including infrastructure development, geographic expansion, and growth in the hydropower sector. However, it must navigate threats such as policy instability, community resistance, demand-supply dynamics, cost volatility, and intense competition. With its seasoned management team and strategic approach, Shivam Cement is positioned to overcome challenges, sustain growth, and reinforce its position as a leading brand in Nepal's cement market. Continued focus on innovation, efficiency, and environmental sustainability will be critical for the company to thrive in a dynamic and competitive landscape.



## ISSUE OF THE MONTH

### Effect of Emotional Gap on Investment Decisions

#### A. What is Emotional Gap?

Human behavior is shaped by conscious and unconscious decisions which can be swayed by behavioral biases. People tend to make decisions based on a set way of thinking or even more problematically based on feelings alone ignoring many relevant facts. Emotional gap alludes to the tendency of making decisions based on intense emotions or emotional stresses such as worry, rage, fear, or enthusiasm.

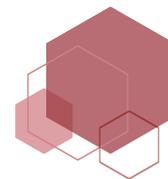
Many believe that on the fundamental level, a market is driven by only two primary emotions: fear and greed. However, these sets of emotions are intense and opposite to each other meaning that investor behavior driven only through these emotions can have serious consequences for investor's portfolio while also affecting the stability of stock market which can extend to affect the national economy as well. Thus, an emotional gap can not only affect an individual but can also quickly become her behavior and affect the market significantly.

#### B. How greed and fear affect investment decisions?

The proclivity of individuals in trying to accelerate the rate at which they make gains/get richer is quite high which is enabled by bull markets which provide swift returns. This has been evident in the previous bull markets in NEPSE which saw stock prices rise substantially. Investors also thus became excessively greedy, driving up purchasing and bidding prices to exorbitant heights. However, since this led to overpricing of stocks, the bubble created eventually burst, leading to humongous losses for the investors.

This is because, like being overwhelmed with greed, investors can also succumb to fear. In the course of a bear market, when stocks deprecate in value for a sustained period, investors can become fearful of further losses, this leads to people selling more which becomes a collective behavior which in turn becomes a self-fulfilling effect of ensuring that prices fall further. Just as greed dominates the market during a boom, fear prevails following its bust.

Many investors are emotional and reactive driven mostly by fear and greed. This is because greed and fear influence how we reason leading us to disregard common sense and self-control and make irrational decisions. When investors are overcome by the force of greed or fear, which grows pervasive in a market, overreactions can occur,



causing price distortions. Asset bubbles, on the other hand, can rise well beyond the values being warranted as per their fundamentals. On the fear scale, sell-offs may last for a long time and drive values much below where they should be.

### C. How to Invest Rationally

Allowing our emotions to guide our financial decisions even if it is successful in terms of a bull market can lead us to make illogical decisions which can lose you a lot of money. Thus, it is typically advisable to disregard the current trend—be it bullish or bearish—and stick to a long-term strategy that is based on solid fundamentals for the majority of your investment portfolio. Using value investing techniques, one can build a long-term portfolio that ensures stable returns over the years. Also, it is essential to recognize your risk tolerance levels and adjust your portfolio accordingly so that when fear and greed dominate the market you can act more rationally.

### D. Value Investing through Graham's Number

Graham's Number is a concept based on Benjamin Graham's conservative valuation of companies. It calculates the intrinsic value of a company based on its earnings per share and book value per share. Different Investors use different metrics for looking at Graham's Number. If a stock's market price exceeds its graham's number, the stock is considered overpriced whereas a price below the number is considered good value.

Different investors use the formulae in its entirety or the formula's singular constituents to quickly calculate whether a stock is worth investing in or not.

The composite formula for graham's number is as follows:

$$\text{Graham's Number} = \sqrt{15 \times 1.5 \times EPS \times BVPS}$$

$$\text{where, } EPS = \frac{\text{net income}}{\text{shares outstanding}}, \text{ BVPS} = \frac{\text{shareholder's equity}}{\text{shares outstanding}}$$

The individual components are also used for quickly comparing stocks as:

$$\text{Graham's Number} = 1.5 \times BVPS$$

$$\text{Graham's Number} = 15 \times EPS$$

Graham's number uses two major indicators of a company's financial health and performance, how much money it is making for each shareholder and how much assets it holds to calculate the best value for a stock. It does not mean that the stock cannot be bought above that price but provides a simple measure to control risk exposure of an investor and helps towards guaranteeing stable returns. Building your portfolio using graham's number will help mitigate the effects of volatility in the market and help an investor behave more rationally.

*\*This article was previously published in the Kartik 2078 edition of The Pulse.*



## Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
NMBPO	AUCTION	52,172 (P)	2024/03/29 AD	2024/04/04 AD	NMB Capital
			2080/12/16 BS	2080/12/22 BS	
HLIPO	AUCTION	64,509 (P)	2024/03/26 AD	2024/04/02 AD	NIC Asia Capital
			2080/12/13 BS	2080/12/20 BS	
SPILPO	AUCTION	287,500(P)	2024/03/26 AD	2024/04/02 AD	NIC Asia Capital
			2080/12/13 BS	2080/12/20 BS	
GBLBSP	AUCTION	50,500 (P)	2024/03/19 AD	2024/04/22 AD	NIC Asia Capital
			2080/12/06 BS	2081/01/10 BS	
NRICP	AUCTION	187,434 (P)	2024/02/20 AD	2024/04/02 AD	Global IME Capital
			2080/11/08 BS	2080/12/20 BS	

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