Small Cap 400

A Compendium On The TOP 400 Small Cap Companies

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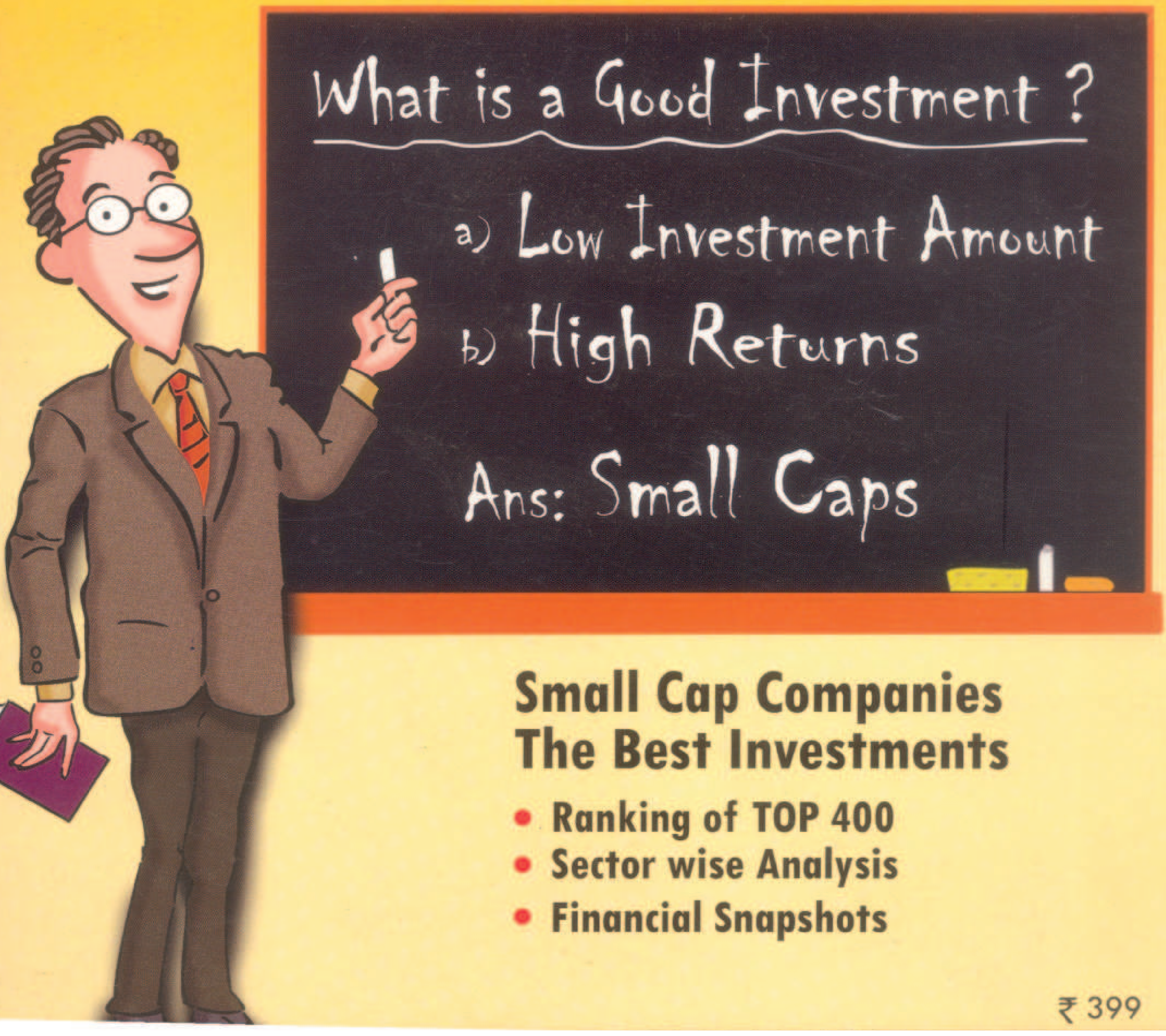

Small Cap Companies
The Best Investments

- Ranking of TOP 400
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₹ 399

Shiva Cement

Cementing THE FUTURE

R P Gupta
Managing Director
Shiva Cement

Shiva Cement Limited is a Rourkela-based cement maker and operates a 115500 TPA clinker facility with a grinding unit of 1,30,000 TPA capacity. The company has a strategic tie-up with ACC and is now undergoing a massive increase in its manufacturing capacity through an expansion programme to take care of the rising demand for cement, especially in the eastern sector. Excerpts from the interview with R P Gupta, Managing Director, Shiva Cement:

Banking on the government's emphasis on improving the infrastructure of the country, Shiva Cement has undertaken an ambitious expansion plan in two phases that will increase its capacity to produce cement as also help make the manufacturing process to become competitive and cost-effective

You have achieved 2.5 times (from Rs 56 lakh to Rs 142 lakh) growth in your net profits in the 1st quarter of current FY. What is the reason behind it and whether you will be able to maintain this growth through out the year?

We had incurred some capex in previous FY as a part of ongoing expansion project. This has improved the production efficiency of the plant in terms of capacity utilization and cost reduction. This has contributed to increase in sales by 27 per cent & EBIDTA by 35 per cent and PAT by 2.5 times. Of course, demand growth and stable price in Eastern zone has also helped. We had given annual target to the Board and to our bankers envisaging growth in revenue by 10 per cent and EBIDTA by 23 per cent. We are definitely going to exceed the target. It will obviously translate to increase in net profits by at least 1.5 times if not more.

You have made several announcements about capacity expansion, power plant etc. What is your exact expansion and growth plan in coming five years? How you are going to fund it? What is the role of ACC in this growth plan?

Our company had vast hidden potential to grow by virtue of surplus infrastructure, mineral assets and un-utilized idle capacity in the core equipment. But unfortunately, we were not able to convert these potentials in terms of revenue and profits. Hence, we entered into a strategic alliance with ACC in the year 2007 offering them 14.35 per cent equity and two seats on the Board to implement our growth plan with their assistance. Subsequently, an expansion plan upto 23.0 lakh TPA from present capacity of 1.32 lakh TPA was submitted to Govt. of Orissa for approval. It is to be implemented in two phases. Phase-I is upto 6.6 lakh TPA and Phase-II upto 23 lakh TPA. Govt. of Orissa has cleared the total expansion plan and other statutory approvals for Phase-I has been received and for Phase-II, it has been received in part.

Hence, company is going to expand by 15 times of present level in next 4/5 years. Comml. Production of Phase-I shall come by Q-3 of next FY and for Phase-II, it is envisaged in CY-2014. The capital investment in Phase-I shall be Rs 163.5 crore and for Phase-II it will be Rs 600 crore. The Term loan for Phase-I has been sanctioned by IDBI bank and part equity has been infused by promoters. Balance equity shall be brought in by the promoters and other investors through private placement. So far, ACC has proposed to infuse funds only in 2nd phase as because, the size of investment in Phase-II is large. During Phase-I, ACC may not prefer to exceed threshold limit of 15 per cent, but their other supports including technical, managerial and marketing shall continue as usual.

What about captive power plant which you have announced?

The decision for 25 MW captive power plant and coal washery envisaging a capital investment of Rs 115-120 crore was taken recently by the Board in it's meeting held on 29/04/2010. The statutory approvals for the same are pending. Hence, it will be clubbed along with Phase-II expansion. In fact, the decision of captive power plant was taken to curtail the cost of power which is expected to increase on year to year basis. It will also help to consume the generation of fly ash captively in cement manufacturing.

Hence, this will help to improve the bottom line without increase of revenue growth. We do not have any plan to sale power, but meant for captive consumption only. It will be majorly financed from debt and internal accruals.

What is your expectation for revenue growth and profitability growth after implementing expansion plans?

After Phase-I expansion in next FY, the revenue shall grow by 4.5 times i.e. Rs 225-235 crore and EBIDTA shall grow by 7-8 times i.e. Rs 75-85 crore as per various estimates and appraisals. Of course, net profit shall multiply several folds. After Phase-II expansion, revenue shall touch about Rs 1000 crore. The profitability estimates for Phase-II has been not fully concretized.

Your present size of Balance sheet is small, how you are going to raise massive debt to fund your total growth plans of Rs 875 Crore?

Our total debt equity is below 0.2 and after implementation of Phase-I in next FY, it will be about 0.46. Hence, enough leverage is available for Phase-II expansion. Further in Phase-II expansion, fresh equity and cash accruals shall also contribute. At no point of time, our debt equity ratio is going to exceed 0.6 which is highly comfortable.

It means you are planning for higher quantum of equity infusion and thereby diluting shareholders' interest.

"The demand growth in the eastern zone during the previous financial year was about 23 per cent and in the coming years it will remain above the country average due to major investments in steel, power, ports etc.

No, after completion of Phase-I the equity capital shall grow by 1.5 times only i.e. from present Rs 30 crore to Rs 45 crore maximum and revenue growth by 4.5 times. Balance portion is through premium and reserves. Similarly, after Phase-II expansion, the equity capital shall grow maximum by 2.5 times of present level i.e. Rs 75 crore max. It means by 2.5 times growth of equity, we shall achieve 15 times growth of revenue. Hence, shareholders interest shall be protected.

What shall be holding of ACC after Phase-II expansion?

Details have been not worked out, but it shall be disclosed at an appropriate time. But obviously, their stake will be go up after Phase-II expansion.

There are several capacity additions in the pipeline. Will it not result into supply over hang and thereby affecting selling price and bottom line of Cement Company including Shiva?

Your observation is partly correct. The capacity addition in pipeline is quite large. But demand growth on all India basis was 13 per cent in previous year and likely to remain 12 per cent CGAR in next 5 years. Hence, surplus capacity is going to be absorbed by next FY-2012. In case of Shiva, the marketing territory is limited to Orissa, West Bengal and Bihar (undivided) where there is a deficit of 11.0 Million Tonne and the deficit is likely to exceed 23.0 Million Tonne by FY-2013. Capacity addition in this part of the country is not significant in comparison to South and other parts due to non availability of virgin limestone deposits in a big way. As a result of which, the prices have been not yet soften in this territory despite monsoon. While as Southern plants are feeling the impact of over supply. It is interesting to note that our enhanced production shall come in Q-3 of next FY, by then, the over supply situation shall also improve.