

PRESS RELEASE

SHREE DISTILLERY LIMITED

August 2024

Rating

Instrument/Facilities	Amount (NPR Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BB- (Is)	Assigned

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

Detailed Rationale

The rating assigned to Shree Distillery Limited (SDL) derives comfort from long track record of more than three decade in Nepalese liquor industry coupled with experienced promoters and management team. The rating factors in SDL's debt-free position, with all of its capital being contributed by equity shareholders. The rating also positively factors spirit license held by the company and improving capacity utilization. The rating also takes into account the duty protection provided to the domestic liquor industry by the Government of Nepal (GoN), which enforces high import barriers ¹on finished liquors.

Nonetheless, the rating remains constrained by stabilization risk after takeover of new management in 2021. Despite a consistent upward trend in revenue, albeit on a small scale, the company continues to incur marginal operational losses. The launch of new products across various UP² segments in FY25 would significantly influence its financial trajectory. Margin pressure could also be created from the steadily increasing excise duty and other taxes on alcoholic products and limited ability of the company to pass on the increased cost to consumers amid competitive pressure. Going forward, performance of the flagship brand (Mount Everest), market traction of newly introduced products, management of working capital cycle and successfully executing an IPO, will be key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established brand presence with exclusive spirit production license

SDL's established presence all over Nepal for over three decades augurs well for the demand prospects. The trademark for "Mount Everest" and "Gorkhali Rum" is a major asset, as the brand requires minimal additional marketing due to its recognition and reputation. It is one of only 8 distilleries out of 84 registered distilleries in Nepal that holds a spirit production license. This exclusivity enhances the company's market position and operational capacity.

Unlevered capital structure

SDL has upheld an unlevered capital structure, relying exclusively on equity funding. The company has maintained a debt-free position, with all of its capital being contributed by equity shareholders. This approach reflects a conservative financial strategy, minimizing financial risk and interest obligations, while also providing the company with greater flexibility in managing its operations and growth initiatives.

¹ Imported finished liquors are subjected to a custom tariff of NPR 2,000 per liter.

² Under Proof

Improved capacity utilisation

The company's installed capacity remained stable at 4.86 Mn liters. However, there was a significant increase in production, which more than doubled from ~1.8 million liters in FY23 to ~3.5 million liters in FY24. This resulted in a substantial improvement in capacity utilization, rising from ~37% to ~72% over the same period. These trends indicate strong operational growth and enhanced efficiency in capacity utilization, contributing to a rise in revenue.

Key Rating Weaknesses

Stabilization risk

Following the takeover by new management in 2021, the company aims to revitalize its operations and re-enter the market competitively. Given its early stages, it remains to be seen how effectively the management can achieve its goals of launching new brands under various UP segments and expanding the business. SDL is currently producing and selling lower segment products (70 UP). SDL is planning to introduce higher category brands such as 40 UP, 30 UP and 25 UP including its original flagship brand i.e., Mount Everest in upcoming years. The successful subscription of the proposed IPO will also play a crucial role in determining the company's future prospects.

Modest financial performance albeit improving revenue trend

SDL exhibited a y-o-y revenue growth of ~121% in FY24, with total operating income (TOI) reaching NPR 181 Mn, up from NPR 82 Mn in FY23 albeit small scale of operation. Despite the positive revenue trend, the company continues to face marginal operational losses, with a negative EBITDA margin in FY24. Going forward, the successful launch of new products in various UP segments will be a critical determinant of the company's future performance.

Regulatory risk

The government has tightened regulations on production, distribution, and sales of alcoholic beverages to curb illegal production and ensure consumer safety. These include stricter licensing, higher excise duties, and rigorous quality control measures, with non-compliance potentially leading to fines, legal actions, or license revocation. Additionally, varying provincial regulations add to the compliance burden. The high import tariff on finished liquors provides some protection, but any reduction or removal could significantly impact revenue, profit margins, and debt coverage. Liquors are among the highest taxed commodities in Nepal, with excise tariffs increasing yearly. This, coupled with competitive pressures, may limit the ability to pass on costs to consumers, reducing profit margins. Restrictions on promotion, sales, and distribution by regulatory agencies could also impact revenue.

Analytical Approach: Standalone

Applicable Criteria:

[Issuer Rating Methodology](#)

About the Company:

Incorporated on April 6, 1986, Shree Distillery Limited (SDL) converted to a public limited company on July 11, 2022 is situated in Arunkhola, Nawalpur, Nepal and operates on 10 bigha of owned land. In 2021, SDL underwent a management change, strengthening its operations. With both a distillery and spirit production license, SDL has a total installed capacity of 4.86 Mn liters and manufactures liquors only in the 70 UP segment as of mid-June 2024. Additionally, it is licensed to produce up to 8,000 kiloliters of spirit annually.

Financial Indicators (Standalone)

For the year ended* As on	FY22	FY23	FY24
	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	3	82	181
EBITDA Margin (%)	Neg	Neg	Neg
Interest Coverage Ratio (x)	NA	Neg	NA
DSCR (x)	NA	10.27	NA
Overall Gearing Ratio (x)	0.03	NA	NA

*Classification as per Infomerics Nepal standards

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About Infomerics Credit Rating Nepal Limited:

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