PRESS RELEASE

SHREE DISTILLERY LIMITED

August 2026

Rating

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

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

Detailed Rationale

The upgradation of the issuer rating of Shree Distillery Limited (SDL) factors in the company's improvement in revenue, albeit on a modest scale, with ~32% y-o-y growth in FY26, supported by the newly launched Oasis vodka brand, which contributed ~20% of total sales despite being introduced in Q3FY26 and gaining meaningful traction only in the last quarter. Revenue growth was further supported by improved average realization across most key SKUs, despite mixed volume trends. The rating also factors in the improvement in operating profitability, supported by the addition of Oasis Vodka (40 UP), which commands relatively higher operating margins. The rating continues to derive comfort from SDL's debt-free capital structure, with its operations entirely funded through equity, its established presence of over three decades in the domestic liquor industry, and the experience of its promoters and management team. Further, the rating is supported by the spirit license held by the company, moderate and stable capacity utilization, and the protection accorded to the domestic liquor industry by the GoN[1] through high import duties on finished liquor.

The rating continues to be constrained by the stabilization risk associated with the management transition in 2021, with the company's performance remaining contingent on its ability to successfully position and establish its newly launched and planned products across various UP[2] segments. The company's ability to achieve sustainable market penetration for these products and successfully complete the proposed IPO remains critical to its growth prospects and future credit profile. The rating also factors in the stretched liquidity profile in FY26, reflected in the increase in working capital intensity to ~84%, primarily due to the extended credit period offered for the newly launched Oasis 40 UP vodka. Further, SDL's profitability remains exposed to the continued increase in excise duties and other taxes on alcoholic products, along with limited pricing flexibility amid competitive market conditions. Going forward, the company's ability to diversify its product portfolio, sustain the improvement in revenue and margins, efficiently manage its working capital cycle, and successfully complete the proposed IPO will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Improving revenue trend

SDL has exhibited a healthy improvement in its operating performance following the change in management in 2021, supported initially by its strategic focus on the 70 UP segment and further aided by product diversification with the launch of the premium 40 UP vodka brand, Oasis, in January 2026. The company's total operating income increased by ~32% y-o-y to NPR 311 Mn in FY26, with the newly launched Oasis brand contributing ~20% of total sales despite being introduced in the third

[1] Government of Nepal
[2] Under Proof

quarter and witnessing meaningful traction only in the last quarter of FY26. The improved product mix and higher average realization supported a significant expansion in operating profitability to 10.38%, while PAT margin improved to 3.73% in FY26 from 0.36% in FY25. Consequently, gross cash accruals also strengthened, albeit remaining modest in absolute terms, to NPR 25 Mn in FY26, reflecting the company's improving earnings profile.

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

Established brand presence with exclusive spirit production license
SDL's established presence of over three decades across Nepal supports its demand visibility, further reinforced by the strong brand equity of its trademarks "Mount Everest" and "Gorkhali Rum," which enjoy wide recognition and require limited incremental marketing efforts. The company's competitive positioning is also strengthened by its spirit production license, held by only 8 out of 125 registered distilleries in Nepal, which provides exclusivity and enhances both its market presence and operational flexibility.

Key Rating Weaknesses

Stretched liquidity profile
SDL's liquidity profile remained stretched in FY26, as reflected in the increase in working capital intensity to ~84% from ~56% in FY25, primarily on account of higher receivables. The average collection period increased to 80 days in FY26 from 55 days in FY25 owing to the extended credit period offered for the newly launched Oasis 40 UP vodka segment. While the average inventory holding period improved marginally to 89 days from 99 days with better sales traction, the overall operating cycle lengthened to 131 days in FY26 from 123 days in FY25, indicating continued pressure on the company's liquidity position.

Stabilization risk
Following the management change in 2021, SDL has been undertaking measures to revive its operations and strengthen its market position, although the success of these initiatives remains dependent on effective execution. The company currently focuses on 70 UP products and launched its 40 UP vodka, Oasis, in January 2026, with its market acceptance yet to be established. SDL also plans to diversify into 30 UP and 25 UP segments and reintroduce its erstwhile flagship brand, Mount Everest. The ability to establish these new products and achieve sustainable market penetration, together with successful completion of the proposed IPO, remains critical to the company's growth prospects and future credit profile.

Regulatory risk
SDL remains exposed to regulatory risks inherent in the liquor industry, with the GoN imposing stringent measures on production, distribution, and sales to curb illicit practices and safeguard consumer interests. These include stricter licensing requirements, frequent hikes in excise duties, and rigorous quality compliance, with any non-adherence potentially resulting in financial penalties, legal actions, or even license cancellation. While high import tariffs on finished liquors currently provide a protective barrier for domestic producers, any relaxation could adversely impact SDL's revenues, profitability, and debt coverage indicators. Furthermore, the liquor industry's status as one of the most heavily taxed sectors in Nepal, coupled with restrictions on promotion and distribution and limited ability to fully pass on cost escalations amid competition, heightens pressure on operating margins.

Analytical Approach: Standalone

Applicable Criteria:
Issuer Rating Methodology

Past Rating Rationale:
Shree Distillery Limited: Issuer Rating Reaffirmed

About the Company:
Incorporated on April 6, 1986, Shree Distillery Limited (SDL), converted into a public limited company on July 11, 2022, is located in Arunkhola, Nawalpur, Nepal. Following a management change in 2021, SDL has focused on strengthening its operations and market presence. The company holds both distillery and spirit production licenses, with total installed capacity of 900,000 cases[3] per annum. As of mid-July 2026, SDL manufactures liquor across the 70 UP, 50 UP and 40 UP segments, with key products including 'Josh Pure and Smooth' whiskey, 'Sagun Apple' whisky, 'Sagun Gold' whiskey, 'Sagun Green Apple' whiskey and 'Oasis Ultra-Premium' vodka, among others. In addition, the company is licensed to produce up to 8,000 kiloliters of spirit annually.

Financial Indicators (Standalone)

For the year ended* As on	FY23	FY24	FY25	FY26
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	82	181	235	311
EBITDA Margin (%)	Neg	Neg	2.94	10.38
Interest Coverage Ratio (x)	Neg	NA	18.25	64.19
DSCR (x)	10.27	18.87	22.29	50.29
Overall Gearing Ratio (x)	NA	NA	0.10	NA
TOL/TNW (x)	0.14	0.04	0.15	0.08
Current Ratio (x)	5.07	11.84	2.73	5.70
Working Capital Intensity	232%	82%	56%	84%

**Classification as per Infomerics Nepal standards*
Earnings before Interest Tax Depreciation Amortization (EBITDA)
Total Outside Liabilities/Tangible Net Worth (TOL/TNW)

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[3] The capacity expansion to 1.71 Mn cases per annum reported in the previous rating was based on management inputs; however, management subsequently clarified that the stated expansion related only to the filling line and did not represent an increase in the overall installed capacity.

About Infomerics Credit Rating Nepal Limited:

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