The Pulse

Market Growth, Risks and Outlook

Ashad 2082

Inside This Edition

हिमालयन क्यापिटल लि.

Himalayan Capital

A Subsidiary of Himalayan Bank Limited

Global Markets Overview

€	1.17 $ (3.45%)
£	1.38 $ (1.85%)
₹	85.70*(0.43%)
¥	144.36*(-0.01%)
A$	0.66 $ (1.82%)
C$	0.73$ (1.08%)

S&P 500	6,141.02 (3.48%)
BSE SENSEX	83,755.87 (2.70%)
NIKKEI 225	39,584.58 (4.93%)
FTSE 100	8,735.60 (-0.48%)
DAX	23,649.30 (-2.38%)
CAC 40	7,557.31 (-3.44%)
HANG SENG	24,325.40 (4.03%)
SSE COMPOSITE	3,448.45 (3.23%)

*Values Per 1 $

Gold($) Per Oz.
3,339.44 (-0.22%)

Bitcoin($)
106,960.00 (-1.87%)

Brent Crude($)
Per Barrell
67.79 (5.38%)

Ethereum($)
2,416.15 (-9.27%)

#All Changes are in MoM basis.

Currency Market Trends

The currency market saw mixed performance over the past month. The Euro experienced the strongest appreciation, rising by 3.45%, followed by the British Pound (1.85%) and the Australian Dollar (1.82%). These gains could reflect stronger economic data or improved investor confidence in these regions. The Indian Rupee and Canadian Dollar posted more modest gains at 0.43% and 1.08% respectively. In contrast, the Japanese Yen saw a marginal decline of 0.01%, indicating relative stability or minor depreciation against the reference currency. Overall, the strengthening of most major currencies could indicate increased investor appetite for non-dollar assets.

Stock indices presented a diverse picture. The Japanese Nikkei 225 led the gains with a 4.93% increase, suggesting optimism in Japan's economic outlook or strong corporate earnings. The HANG SENG (4.03%), S&P 500 (3.48%), and SSE Composite (3.23%) also performed well, pointing to broad-based equity strength in Asia and the U.S. Meanwhile, India's BSE Sensex rose by 2.70%, reflecting continued investor confidence. However, European indices underperformed, with the CAC 40 down 3.44%, DAX falling 2.38%, and FTSE 100 slightly declining by 0.48%. This may highlight investor concerns over the European economic or political climate.

In the commodities sector, energy prices showed notable strength, with Brent Crude surging 5.38%, likely driven by supply constraints or geopolitical tensions. In contrast, cryptocurrencies experienced a pullback, with Ethereum dropping sharply by 9.27% and Bitcoin by 1.87%, indicating a shift in risk sentiment or profit-taking after recent rallies. Gold remained relatively flat, dipping slightly by 0.22%, suggesting a stable demand for safe-haven assets amidst global financial volatility.

Across the three sectors—currencies, indices, and commodities—the overall theme is one of regional divergence and shifting investor sentiment. Strong equity performance in Asia and the U.S., alongside gains in key currencies, points to optimism in these regions, while underperformance in European markets and cryptocurrencies reflects localized risks or broader caution. Commodity markets remain sensitive to macroeconomic and geopolitical influences, particularly in the energy and digital asset segments. Together, these trends suggest a cautious but selectively optimistic global market environment.

Macroeconomic Overview

Inflation	Deposit Growth	Credit Growth	Import Growth
2.77 % ▲	11.36% ▲	8.37% ▲	13.11% ▲

Export Growth	Remittance Growth	FX Reserve Growth
72.71% ▲	13.18% ▲	29.37% ▲

* Growth refers to the change between ten months data of FY 80/81 and FY 81/82.

* Credit refers to claim on private sector.

Monthly Trading Statistics

Average Turnover	Average Shares Traded	Average Transactions	Average Scrips Traded
NPR 8.79 B	20.79 M	81.60 K	314
4.87% ▲	11.75% ▲	1.78% ▲	-0.39% ▼

* For the period (May 28, 2025) – (June 26, 2025)

Liquidity Overview

A. Major Rates

Description	Value As On					Change		
	Baisakh-81	Chaitra-81	Baisakh-82	Ashad 5	Ashad 12	YOY	MOM	WOW
Wt.Avg 28 Days TB rate (%)	2.87	2.98	2.96	2.96	2.96	0.09	-0.02	0.00
Wt.Avg 91 Days TB rate (%)	3.02	3.06	2.95	2.90	2.93	-0.07	-0.11	0.03
Wt.Avg 364 Days TB rate (%)	3.27	3.03	3.03	2.99	2.99	-0.24	0.00	0.00
Wt. Avg Interbank Rate (%)	2.88	3.00	3.00	3.00	3.00	0.12	0.00	0.00
CapEx (In Billion NPR)	111.88	102.90	120.38	148.16	156.17	8.50	17.48	8.01

B. BFI Statistics

Description	Value As On					Change		
	Baisakh-81	Chaitra-81	Baisakh-82	Ashad 5	Ashad 12	YOY	MOM	WOW
Wt. Avg Deposit Rate (%)	6.35	4.45	4.37	4.37	4.37	-1.98	-0.08	0.00
Wt. Avg Lending Rate (%)	10.34	8.22	8.11	8.11	8.11	-2.23	-0.11	0.00
Base Rate (%)	8.34	6.29	6.17	6.17	6.17	-2.17	-0.12	0.00
CD Ratio (%)	80.10	79.45	79.13	78.31	78.27	-0.97	-0.32	-0.04
Fixed Deposits/Total Deposits (%)	58.66	50.68	50.59	50.59	50.59	-8.07	-0.09	0.00
Total Liquid Assets/Total Deposits (%)	26.56	25.40	24.85	24.85	24.85	-1.71	-0.55	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	Ashad 3	1000.00	0.00	28	45	2.72	1000.00	2.80	3.00	2.96
91 Days	Ashad 3	500.00	0.00	10	51	6.75	500.00	0.89	2.93	2.90
182 Days	Ashad 3	633.00	0.00	12	44	4.97	633.00	2.93	2.97	2.95
364 Days	Ashad 3	500.00	0.00	14	41	5.56	500.00	2.97	3.00	2.99

**Figures are in Millions NPR*

Sectoral Movement

Index	Jestha 13	Ashad 12	Change
NEPSE	2,675.62	2,595.74	-2.99%
Hydropower	3,440.32	3,552.22	3.25%
Mutual Fund	19.12	19.13	0.05%
Hotels & Tourism	6,733.69	6,688.52	-0.67%
Investment	110.83	108.30	-2.28%
Finance Company	2,392.73	2,317.64	-3.14%
Manufacturing & Processing	7,238.52	6,996.35	-3.35%
Development Bank	5,498.66	5,296.82	-3.67%
Others	2,344.22	2,253.37	-3.88%
Commercial Bank	1,393.97	1,332.69	-4.40%
Non Life Insurance	12,444.07	11,881.64	-4.52%
Microfinance	4,843.85	4,623.90	-4.54%
Trading	4,343.65	4,131.92	-4.87%
Life Insurance	13,234.12	12,461.55	-5.84%

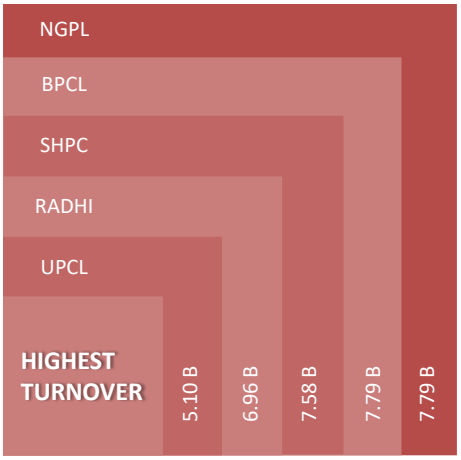
Major Movers

PURE	196.34%	CREST	-22.43%
BPCL	58.04%	WNLB	-20.90%
PMHPL	51.52%	DORDI	-18.75%
UNHPL	32.87%	NMIC	-17.76%
BARUN	31.63%	BEDC	-16.44%

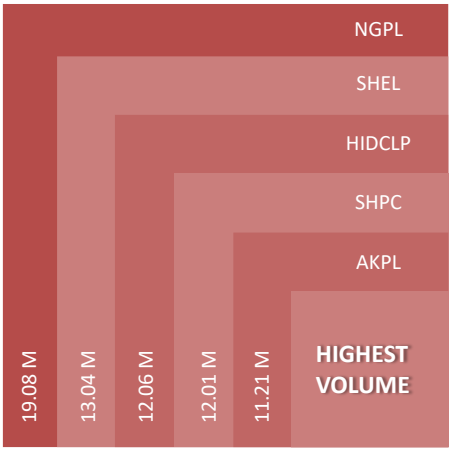
Sectoral Divergence-Turnover

Index	90 Days Avg	Monthly Avg	Divergence
NEPSE	8.38 B	8.79 B	4.87%
Hotels And Tourism	0.17 B	0.32 B	88.07%
Hydro Power	3.85 B	5.56 B	44.42%
Commercial Banks	0.49 B	0.54 B	10.34%
Mutual Fund	0.01 B	0.01 B	5.86%
Manufacturing And Processing	0.27 B	0.28 B	5.05%
Non Life Insurance	0.21 B	0.17 B	-16.75%
Development Banks	0.59 B	0.44 B	-24.67%
Investment	0.79 B	0.59 B	-24.97%
Tradings	0.02 B	0.01 B	-28.08%
Microfinance	0.38 B	0.25 B	-34.50%
Finance	0.26 B	0.16 B	-41.06%
Life Insurance	0.42 B	0.25 B	-41.14%
Others	0.70 B	0.29 B	-58.90%

Highest Turnover



Highest Volume



NEPSE Outlook

A. Current Overview

As of 26 June 2025, the NEPSE index closed at 2,595.74 points, marking a decrease of 79.02 points (2.95%) across 22 trading days. The average turnover in these 22 trading days saw a decrease to NPR 8.62 billion, down from NPR 8.72 billion in the previous month.

The Relative Strength Index (RSI) stands at 35.17 points, indicating the market is in the oversold zone while the Moving Average Convergence Divergence (MACD) indicator suggests a bearish trend.

Looking ahead, the NEPSE index's immediate support levels are identified as (S1) 2,580, (S2) 2,570, and (S3) 2,545 while immediate resistance levels are recognized at (R1) 2,630, (R2) 2,645, and (R3) 2,680. These support and resistance levels serve as valuable indicators for investors when formulating trading decisions.

B. Long Term Overview

After multiple attempts, the benchmark index successfully broke the strong resistance zone of 2,200-2,300 to resist around 2,900 level for a time being and went into consolidation then after. The market has been on sideways for more than 10 months despite the current lower interest rate regime and easy liquidity in the system.

Throughout this phase, different market friendly events such as reduction in risk weightage of share loans in Q3 (FY 2081-82) Monetary Policy review, appointment of Congress-backed governor, priorities set forth in the national budget and various flexible circulars related to Working Capital Guidelines and priority sector lending failed to woo the mass sentiment.

Given these instances, the market is likely to remain sideways at least till the FY end and change its course in accordance with the upcoming Monetary Policy. If the NEPSE index surpasses its previous high of 3,200, Trend Based Fibonacci extension levels suggest it could target 3,400 and 3,690. On the downside, if the market experiences a pullback, long-term support is expected around 2,390, followed by 2,200, the previous resistance level. These levels will depend on broader economic conditions and market sentiment.

SCRIP ANALYSIS

Himalayan Distillery Limited (HDL)

A. About the Company

Himalayan Distillery Limited (HDL), a landmark name in the alcoholic beverage industry of Nepal has prominently placed itself as the market leader with an astounding market share of approximately 73% market share in the 40UP whisky segment, which includes Golden Oak and Black Oak. HDL has been able to stand strong in the ever-competitive liquor industry of Nepal. This can be attributed to a series of factors including but not limited to higher degree of compliance with and implementation of international standard quality benchmarks, uncompromised adherence to corporate governance, continuous product innovation and upgradation, state of-the-art automation and better scalability of its manufacturing processes to further enhance its operational efficiency and productivity and not to forget a highly involved and customer-oriented, competitive and a robust sales and distribution team.

During the 3rd quarter of FY 2081/82, Himalayan Distillery has commenced the production of Malt Spirit from its new Malt Distillation Unit starting from the 3rd quarter of the current fiscal year. As of the reporting date, the company has produced a total of 20,111 liters, out of which 12,000 liters have already been sold to other industries. This early traction reflects management's confidence that malt production will contribute significantly to both revenue growth and profitability. As per its website, the company is currently selling the malt spirit at NPR 800 per liter. HDL invested in a cutting-edge Malt Distillation Plant to reduce reliance on expensive imports of Malt spirits.

In parallel, the company has successfully completed its Zero Liquid Discharge (ZLD) project. Under this initiative, the by-product sludge generated during production is now being converted into Dry Cake, which is used as feed for cattle, birds, and fish. The company believes this will not only enhance its environmental index but also generate additional income through the sale of this dry cake. Further, the company has completed plant automation to improve the production of high-quality Extra Neutral Alcohol (ENA), and it is confident that this will ensure consistency in both volume and quality.

On the branding and sales front, the company's flagship product Golden Oak continues to maintain a high market share and enjoys steady daily demand, which has positively impacted overall sales. Likewise, the company's other product Black Oak has also sustained consistent daily sales, with an increase in sales of 73%. The company has also seen rising demand for Silver Oak (market share in the 40 UP vodka segment is 12%), especially in the white spirits segment, where it previously had a limited presence. Compared to the same period last year, the overall market demand has significantly increased, resulting in a 251% growth in net profit during the review period.

HDL also has two wholly owned subsidiaries—Himalayan Fisheries Limited and Himalayan Multi Agro Limited—both of which remain non-operational as of now.

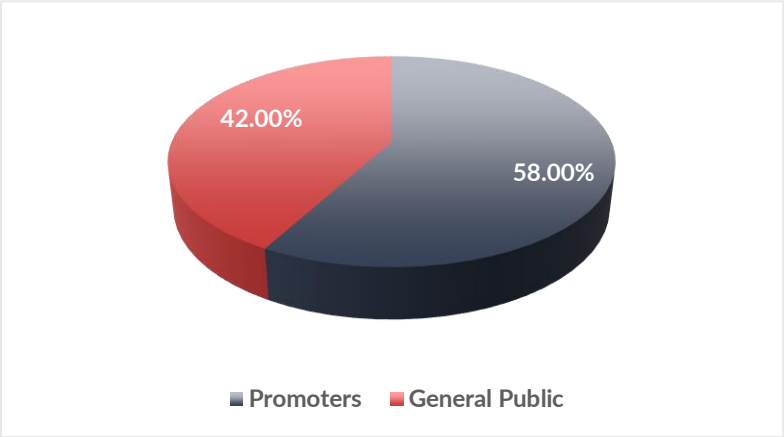
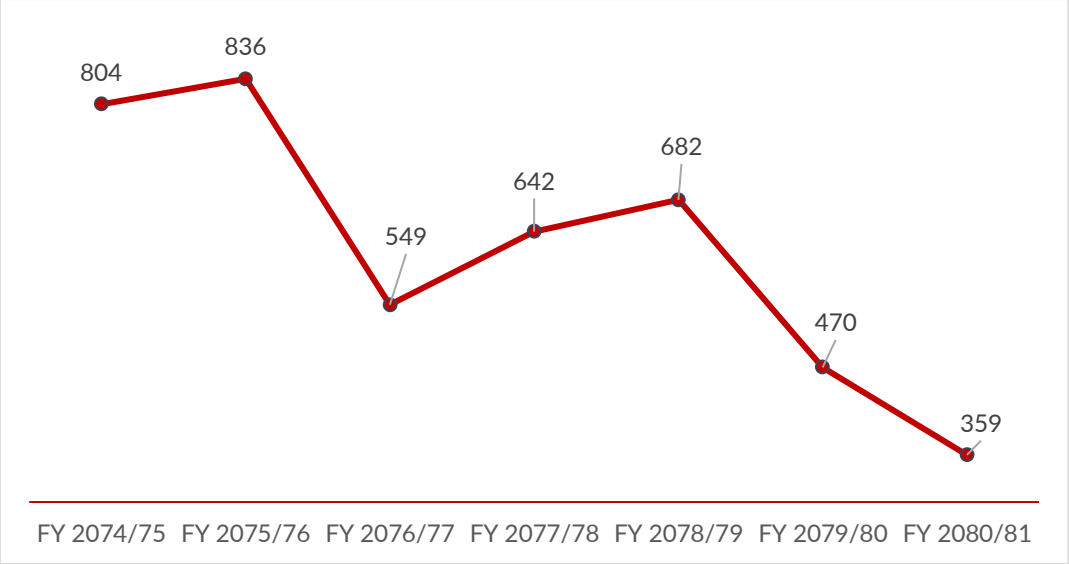


Figure: Shareholding Pattern of Himalayan Distillery Limited (HDL) as per Nepal Stock Exchange

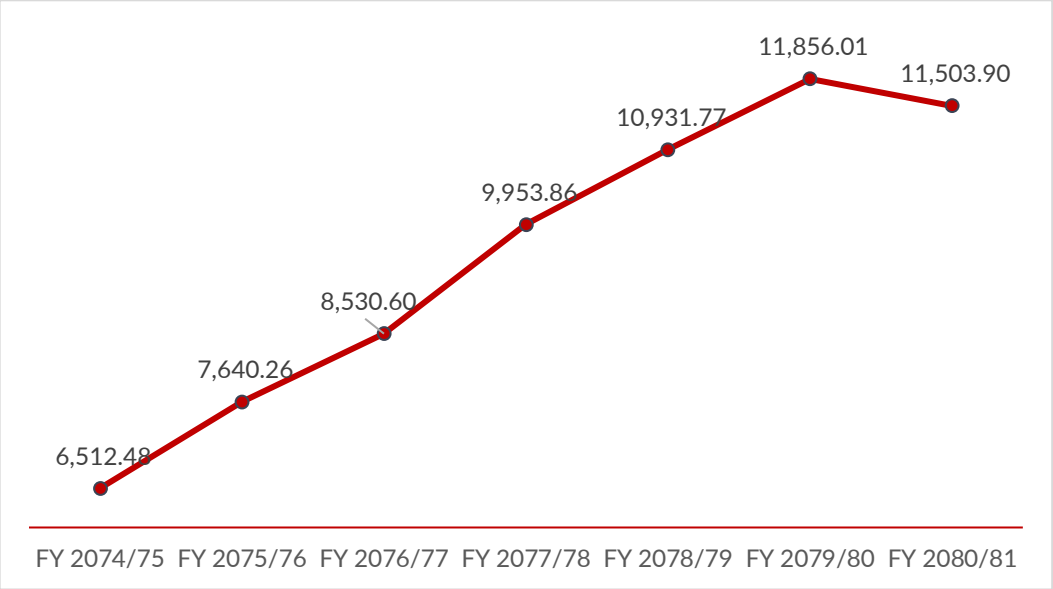
Number of Cases Sold by HDL as per its annual report (in '000)



HDL's sales volume, measured by the number of cases sold, has shown a fluctuating yet overall declining trend in recent years—from a peak of 836,192 cases in FY 2075/76 to 359,673 cases in FY 2080/81, reflecting a cumulative drop of over 57%. This decline can be attributed to market saturation, shifting product focus, and the economic slowdown during and post-COVID. However, signs of recovery are visible in FY 2081/82.

Although the exact volume data is not yet available, the company has reported a sharp surge in revenue, indicating that sales volumes have likely rebounded, supported by improving demand and a broader market recovery. This suggests that the company's strategic initiatives—including product premiumization and better distribution efficiency—are beginning to yield results.

Price Per Case in NPR



From FY 2074/75 to FY 2079/80, HDL consistently raised its average price per case, growing from NPR 6,512.48 to NPR 11,856.01, reflecting a CAGR of over 10%. This steady rise was driven by price revisions, premium product launches, and possibly inflationary cost pass-through. However, in FY 2080/81, the average price per case dipped slightly to NPR 11,503.90, despite a continued drop in volumes—suggesting either a shift in sales mix toward lower-priced products or price adjustments to sustain demand amid declining case sales.

Although data for FY 2081/82 is not yet available, the sharp increase in revenue despite prior volume decline indicates a likely recovery in both sales volume and pricing, possibly driven by better product mix and improved market conditions.

Historical Financial Performance & Strategic Turnaround Analysis

Particulars	FY 2077/78	FY 2078/79	FY 2079/80	FY 2080/81	FY 2081/82 Q3 (Annualized)	Trendline
Gross Sales in NPR billions	6.51	7.58	6.39	4.16	7.14	
Net Sales in NPR billions	3.70	4.06	2.97	2.08	3.71	
Net Profit in NPR billions	1.04	1.06	0.66	0.35	0.99	
Return on Equity (ROE)	63.95%	43.59%	21.30%	10.54%	27.53%	
Return on Assets (ROA)	48.38%	38.42%	19.24%	9.67%	23.12%	
Earnings Per Share (EPS)	120.02	69.61	27.17	13.21	32.07	
Book Value Per Share (BVPS)	231.02	187.33	138.08	125.10	128.29	
Dividend %	100.00	70.00	25.00	20.00	-	
Bonus shares in dividend %	75.00	60.00	10.00	15.00	-	
Market Capitalization in NPR billions as of 24 June, 2025	47.83	51.78	54.62	36.99	36.29	

1. Revenue and Demand Trends:

HDL's gross sales grew consistently from NPR 6.5 billion in FY 2077/78 to a peak of NPR 7.58 billion in FY 2078/79, before declining over the next two years due to economic slowdown and reduced demand for alcoholic beverages. Net sales fell in tandem, reaching a low of NPR 2.08 billion in FY 2080/81.

However, in FY 2081/82, Q3 (annualized), gross sales have sharply rebounded to NPR 7.14 billion, and net sales to NPR 3.71 billion, indicating a strong recovery in market demand, especially driven by the revival of core brands and the launch of new malt-based and ENA products.

2. Profitability and Return Ratios:

Net profit peaked at NPR 1.04 billion in FY 2077/78 and fell to just NPR 353 million in FY 2080/81, driven by declining demand and operational margin pressure. As of FY 2081/82 Q3, profit has rebounded to NPR 985 million (annualized), signaling a robust financial recovery.

This trend is mirrored in ROE and ROA, which plunged to 10.54% and 9.67% respectively in FY 2080/81 but have now improved to 27.53% and 23.12%, respectively. The recovery is due to both better profitability and improved utilization of assets and equity.

3. Earnings Per Share (EPS) & Book Value Per Share (BVPS):

EPS has fluctuated sharply — from Rs. 120.02 in FY 2077/78 down to Rs. 13.21 in FY 2080/81, before recovering to Rs. 32.07 in FY 2081/82 Q3.

However, the decline in EPS and BVPS (which fell from Rs. 231.02 to Rs. 125.10) must be seen in the context of heavy bonus share issuance in past years — 75%, 60%, and 10% bonus shares in FY 2077/78, 2078/79, and 2079/80 respectively. These issuances diluted per-share figures, even though the absolute profit remained substantial during the earlier years.

4. Dividend History and Capital Return Policy:

The company has a history of generous dividends, paying 100% (75% bonus) in FY 2077/78 and 70% (60% bonus) in FY 2078/79. However, in line with earnings pressure, dividends were reduced to 25% and 20% in subsequent years.

Notably, no dividend has been declared yet for FY 2081/82, but given the current earnings trajectory, a resumption or increase in dividend payout is likely if Q4 results remain strong.

5. Market Capitalization & Valuation Context:

Despite improved fundamentals in FY 2081/82, market capitalization has declined from NPR 54.6 billion in FY 2079/80 to NPR 36.28 billion currently. This could reflect lagging investor confidence, broader market trends, or overhang from past underperformance.

However, given the operational recovery, margin improvement, and rising demand, the current valuation may present an attractive entry point for long-term investors.

Conclusion – Investment Outlook

HDL is showing strong signs of fundamental turnaround, supported by:

- Improved sales momentum due to product diversification (malt & ENA),
- Operational efficiency gains via automation and ZLD implementation,
- Recovering profitability and return ratios,
- Stabilized capital base after dilution from prior bonus issues.

Assuming continued growth in Q4, HDL appears well-positioned for earnings stability, possible dividend resumption, and valuation re-rating. Investors may

consider this a recovery play in the alcoholic beverages segment, backed by clear operating leverage and product innovation.

Regarding Ageing Maturity Spirits

According to the company's annual report for FY 2080/81, one key strategic motivation for establishing its own malt distribution unit is to align with the global trend among alcohol manufacturers shifting focus toward premium products. This initiative is designed to produce malt spirits matured in the Everest Region, leveraging its unique climatic conditions to create a distinctive premium product with exceptional character and quality. This move is part of HDL's broader vision to establish itself as a leading global brand in the premium aged spirit's segment.

With the distillation unit already completed by FY 2081/82 Q3, the malt spirits produced will be aged for a minimum of three years to craft premium single malt whisky. This development will significantly reduce HDL's dependence on imported Scotch whisky, while simultaneously setting a new benchmark for quality and innovation within the spirits industry.

To support malt production, HDL is investing in a dedicated maturation warehouse located within the Himalayan region, selected specifically for its optimal climatic conditions favorable to spirit aging. The warehouse will facilitate aging for at least three years, enhancing the flavor profile and overall quality of the malt spirits. This strategic asset will enable HDL to:

- Decrease reliance on costly imported malt spirits, thereby improving cost efficiency;
- Maintain superior product quality while reducing production expenses;
- Create new opportunities to expand sales of aged spirits in both domestic and international markets.

This investment reinforces HDL's position as a key producer of premium spirits, laying the groundwork for improved operational efficiency and diversified revenue streams. It is important to note that the natural extension of Days Inventory Outstanding (DIO) due to aging stock is an intentional and value-adding aspect of the business model. In premium categories such as whiskey, brandy, and wine, prolonged maturation directly correlates with enhanced quality and elevated market pricing, underscoring the strategic value of inventory aging in driving brand prestige and profitability. The following will be further explained in the debtor analysis.

As per Annual Report up to Asar end

Particulars	FY 2077/78	FY 2078/79	FY 2079/80	FY 2080/81	Trendline
Days Inventory Outstanding	73.14	43.21	99.94	166.17	
Days Receivable Outstanding	40.07	40.14	88.90	86.19	
Days Payable Outstanding	31.11	23.62	36.76	41.30	
Cash Operating Cycle in Days	113.21	83.35	188.84	252.36	
Cash Conversion Cycle in Days	82.11	59.72	152.08	211.06	

Between FY 2077/78 and FY 2080/81, Himalayan Distillery Ltd. (HDL) experienced a significant shift in its working capital structure. In FY 2077/78 and FY 2078/79, the company maintained operational efficiency, with DIO falling from 73.14 to 43.21 days and DSO remaining stable just above 40 days—indicating strong inventory turnover and timely collections.

However, FY 2079/80 marked the beginning of a downturn. As sales and profitability declined, DIO more than doubled to 99.94 days, and DSO jumped to 88.90 days, reflecting slower inventory movement and growing collection delays. Although DPO increased to 36.76 days, it offered limited relief. As a result, COC surged to 188.84 days and CCC to 152.08 days—highlighting mounting liquidity pressures.

In FY 2080/81, HDL's strategic shift toward premiumization contributed to a planned rise in DIO to 166.17 days due to the aging of malt whisky. However, DSO remained high at 86.19 days, keeping cash flow under pressure. Despite a slight rise in DPO to 41.30 days, the COC stretched further to 252.36 days and CCC to 211.06 days.

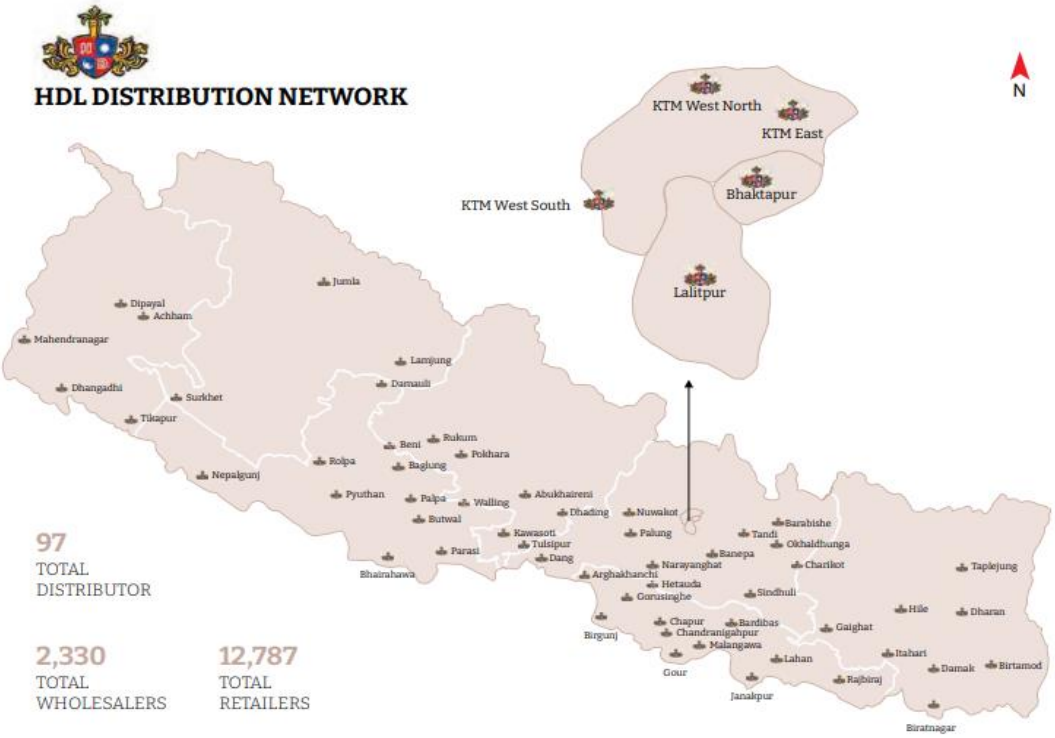
While the inventory buildup is intentional and value-driven, persistently elevated receivables pose a risk. To support its long-term strategy, HDL must improve credit controls and accelerate collections to ease short-term liquidity strain.

As per Q3 Reports Corresponding (Chaitra end)

Particulars	Q3 2078/2079	Q3 2079/2080	Q3 2080/2081	Q3 2081/2082	Trendline
Days Inventory Outsanding	47.41	37.86	83.54	171.31	
Days Receivable Outstanding	116.50	175.37	231.38	29.91	
Days Payable Outstanding	35.24	28.94	44.41	81.75	
Cash Operating Cycle in Days	163.91	213.23	314.92	201.21	
Cash Conversion Cycle in Days	128.67	184.29	270.51	119.46	

As of Q3 FY 2081/82, Himalayan Distillery Ltd. (HDL) has significantly improved its working capital position compared to the stressed levels of FY 2080/81. Days Receivable Outstanding (DRO) dropped sharply to 29.91 days from 231.38 in Q3 FY 2080/81 and 86.19 at year-end, indicating much stronger collection efficiency. While Days Inventory Outstanding (DIO) rose to 171.31 days from 166.17, it remains aligned with the company's long-term aging strategy. Meanwhile, Days Payable Outstanding (DPO) improved to 81.75 days, up from 44.41 in Q3 of the previous year. As a result, HDL's Cash Conversion Cycle (CCC) declined to 119.46 days, a marked improvement from 270.51 days a year earlier and 211.06 days at FY 2080/81 end—signaling better liquidity management and operational discipline.

Distribution Network of HDL as per its annual report of FY 2080/81



Altman Z Score

Equation for Altman's Z-Score Model (1968):

$$Z = 1.2X_1 + 1.4X_2 + 3.3X_3 + 0.6X_4 + 1X_5$$

X_1 = Working Capital / Total Assets

X_2 = Retained Earnings / Total Assets

X_3 = Earnings Before Interest & Tax (EBIT) / Total Assets

X_4 = Market Capitalisation / Total Liabilities

X_5 = Sales / Total Assets

The **Altman Z-Score** is a financial formula used to predict a company's likelihood of bankruptcy. Developed by Edward Altman, it combines five key financial ratios—profitability, leverage, liquidity, solvency, and activity—into a single score. A **Z-score above 2.99** indicates strong financial health, **1.81–2.99** suggests potential risk (gray zone), and **below 1.81** signals high bankruptcy risk. It is especially useful for assessing manufacturing and capital-intensive firms.

Ratio	Weight	2081-82 (Q3)	Value
A = Working Capital / Total Assets.	1.20	0.06	0.08
B = Retained Earnings / Total Assets.	1.40	0.19	0.26
C = Earnings Before Interest and Taxes (EBIT) / Total Assets.	3.30	0.22	0.72
D = Market Value of Equity / Total Liabilities.	0.60	45.07	27.04
E = Sales / Total Assets.	1.00	1.12	1.12
Altman Z Score as of FY 2081/82 Q3		**29.22**	

With an Altman Z-Score of 29.22, HDL demonstrates exceptionally strong financial health and virtually no risk of bankruptcy, reflecting robust profitability, liquidity, and solvency.

B. SWOT Analysis

Strengths

- **Market Leadership & Brand Recall:** HDL remains one of the most recognized names in Nepal's alcoholic beverage industry, with established flagship products in the mid-tier and premium segments.
- **Strategic Shift to Premiumization:** The company's investment in malt whisky aging and product development positions it to benefit from growing demand for high-margin premium spirits.
- **Strong Financial Health:** An Altman Z-Score of 29.22 indicates very low bankruptcy risk, underpinned by strong liquidity and solvency.
- **Improving Working Capital Efficiency:** As of Q3 FY 2081/82, Days Receivable Outstanding dropped dramatically to 29.91 days from 231.38 a year earlier, enhancing liquidity and operational efficiency.

- **Increased Supplier Credit:** A rise in Days Payable Outstanding to 81.75 days suggests stronger negotiation power or better terms with suppliers.

Weaknesses

- **High Reliance on Group Distribution Arm:** HDL sells most of its inventory to JGI Distribution Pvt. Ltd., a related party under the Jawalakhel Group of Industries (JGI). In FY 2080/81, HDL reported sales worth NPR 4.34 Arba to JGI, despite total revenue being only NPR 4.15 Arba, raising concerns over premature revenue recognition and real market demand.
- **Lack of Transparency in Inventory Movement:** Since JGI is not publicly listed, there is insufficient disclosure on whether goods are reaching end consumers or being stockpiled, possibly inflating topline and masking underlying demand.
- **Promoter Exit:** The promoter public ratio of the company has substantially decreased over a period of time which also indicate that promoters are gradually exiting, potentially eroding investor confidence and raising concerns about long-term commitment.
- **Inventory Build-up Risk:** Although part of the premium aging strategy, a DIO of 171.31 days (as of Q3 FY 2081/82) could pose a valuation risk if final demand doesn't meet expectations.
- **Limited Diversification of Sales Channels:** Heavy dependence on in-house distribution limits exposure to broader market dynamics and may reduce competitiveness in reaching untapped regions or segments.
- **Corporate Governance Concerns:** The combination of related-party transactions, limited downstream visibility, and promoter exits raises potential corporate governance red flags that could concern institutional investors.

Opportunities

- **Premium Spirits Demand Surge:** Rising urban income levels and changing consumer tastes support HDL's shift toward aged and high-quality products.
- **Export and Brand Globalization:** Leveraging the "Himalayan" identity and Everest-region maturation process can help HDL penetrate international markets with a unique brand narrative.
- **Tourism Integration:** With Nepal's tourism on the rise, there's potential to create experiential marketing around distillery tours, tasting rooms, and branded outlets.

Threats

- **Regulatory Uncertainty:** Government policies around alcohol advertising, taxation, or health-based restrictions can directly affect sales volume and profitability.

- **Market Saturation and Illicit Alternatives:** The rise of informal or untaxed liquor can eat into HDL's addressable market, especially in rural areas.
- **Reputational Risks from Group Dynamics:** Any negative development in related JGI entities can indirectly affect HDL's perception and operational continuity.
- **Cash Flow Misalignment:** If significant sales are stuck at the distribution level and not converted into actual market demand, HDL may face a mismatch between reported profits and real cash flows.

C. Stock Performance vs NEPSE and Financial Performance

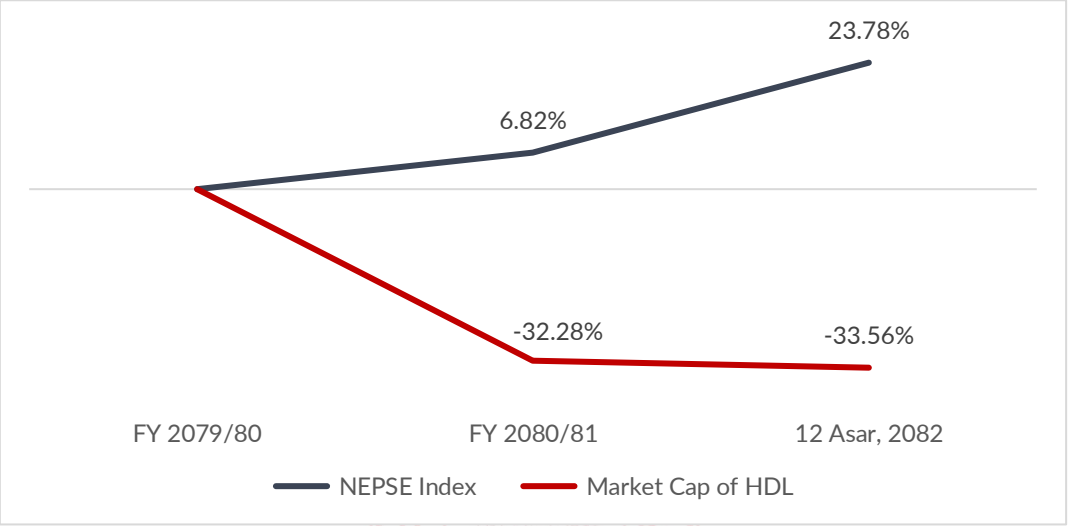


Figure: Financial performance and stock performance of HDL vs NEPSE

Even though HDL's financial performance has rebounded strongly following two difficult years, its stock price has not appreciated in line with this recovery. While factors such as the gradual offloading of promoter holdings may have influenced near-term sentiment, the company's improving earnings, stronger operational efficiency, and strategic shift toward premium products suggest that HDL remains undervalued—making it an attractive long-term value opportunity.

Key Variables used for Valuation:

Specifics	Value	Remarks
Adjusted Beta (β)	1.09	Assumption - The raw weekly beta of 1.14 as per System X, will move towards the market beta of 1 over time.
Market Return (Rm)	11.04%	CAGR of closing prices of NEPSE from FY 2001/02 to FY 2023/24.
Risk Free Rate (Rf)	5.15%	The latest Development Bond Rate (5.48%) adjusted for a tax rate of 6.00%
Cost of Equity (Ke)	11.59%	As per the CAPM Model

Specifics	Value	Remarks
Cost of Debt (Kd)	10.65%	As per the average monthly lending rates of commercial banks since February 2014
Tax Rate	25.00%	As per its annual report
WACC	11.59%	Discount rate for the valuation (no debt in its capital structure, so cost of equity is WACC)

Other Assumptions:

- **Base Case Volume Growth:** We assume an 85% increase in cases sold in FY 2081/82 over FY 2080/81, reflecting a strong recovery supported by Q3 results. From FY 2081/82 to FY 2085/86, volume is expected to grow at a CAGR of 8.49%. In Q3 of FY 2081/82 it has reported a net profit of NPR 739.24 million which is more than double of Q4 2080/81 figure of NPR 353.05 million, which also validates our assumption.
- **Bull Case Volume Growth:** A 100% increase in cases sold in FY 2081/82 is assumed, followed by a CAGR of 12.24% through FY 2085/86.
- **Bear Case Volume Growth:** We assume 65% growth in FY 2081/82, with a more conservative CAGR of 6.24% thereafter.
- **Price Growth (All Cases):** Price per case is assumed to increase starting FY 2083/84, aligned with HDL's focus on premium aged whisky.
- **Base Case Price CAGR:** A CAGR of 5.25% in price per case is projected over the five-year period.
- **Bull Case Price CAGR:** Price per case is expected to grow at a CAGR of 8.12%.
- **Bear Case Price CAGR:** A CAGR of 3.12% is assumed for the bear case scenario.
- **Malt Spirit Sales to Third Parties:** HDL is expected to generate additional revenue through the sale of excess malt spirit from its distillation unit.
- **ENA Revenue Stream:** Continued revenue is expected from the sale of Extra Neutral Alcohol (ENA).
- **Interest Income on Fixed Deposits:** HDL holds NPR 1.1 billion in fixed deposits, projected to rise to NPR 1.25 billion by FY 2085/86. The interest rate is expected to start at 5.00% in FY 2081/82 and increase to 7.00% by FY 2085/86.
- **Inventory Holding Period:** Inventory days are assumed to rise due to the minimum 3-year aging of malt whisky, in line with HDL's premiumization strategy.
- **Excise Duty:** A marginal increase in excise duty is factored in, based on the FY 2082/83 budget announcement.

- **Other Operating Expenses:** Projected based on historical trends, with necessary adjustments for inflation and business expansion.

D. Stock Valuation

We have valued Himalayan Distillery Limited (HDL) using the Discounted Cash Flow (DCF) method. This valuation method estimates a company's value by projecting future cash flows and discounting them back to the present. It's commonly used because it considers time value of money, providing a comprehensive, long-term financial assessment. Internationally, DCF valuation is widely used for its adaptability and detailed view of future cash flows. However, it's subjective, relying on assumptions about growth and risk, which can vary widely across analysts and markets.

The final valuation of HDL based on the DCF Approach has been computed, tabulated below.

Scenario	Valuation Price (NPR)
Base Case	727.03
Bull Case	953.66
Bear Case	511.47
Average Valuation	**730.72**

E. Technical Analysis

Himalayan Distillery Ltd. (HDL) is currently trading at NPR 1,177.12, hovering close to a crucial support zone around NPR 1,170, which has held firm over recent months. The

stock has been in a consolidation phase, forming a narrow trading range between NPR 1,170 and NPR 1,274, reflecting indecision in the market despite improving financials.

From a technical indicator standpoint, the Relative Strength Index (RSI) at 33.63 suggests the stock is nearing oversold territory, which may present a short-term buying opportunity if demand picks up. However, the MACD remains in negative territory, showing bearish momentum, and the Accumulation/Distribution line continues to trend downward, indicating weak buying interest or potential distribution by large holders.

On the upside, a sustained breakout above the key resistance level of NPR 1,274 could open the way for a rally toward the NPR 1350–1380 range. Conversely, a breakdown below NPR 1,170 may trigger a further decline toward NPR 1,130 and NPR 1,080, the next significant support levels.

While technical indicators are weak, any price breakout above resistance levels, especially if accompanied by higher volume, could signal renewed bullish momentum. Therefore, investors should monitor these levels closely in conjunction with fundamental developments.

F. Conclusion

Himalayan Distillery Limited (HDL) has demonstrated a strong financial recovery following two difficult fiscal years, driven by revived demand, new revenue streams from malt spirit and ENA, and enhanced operational efficiency. As of Q3 FY 2081/82, profitability, return ratios, and working capital management have all improved significantly. With an Altman Z-Score of 29.22, HDL reflects very low financial distress risk, supported by its high-margin products and solid balance sheet.

Despite this, HDL's market capitalization has declined by over 33% from its FY 2079/80 level, and its stock price has not appreciated in line with the recovery. This disconnect offers a potential long-term value opportunity. While promoter offloading and lack of price action may raise concerns, the company's earnings momentum and strategic positioning mitigate those risks for patient investors.

However, one area requiring closer attention is HDL's high dependence on its group company, JGI Distribution Pvt. Ltd., for inventory sales. In FY 2080/81, HDL reported NPR 4.34 Arba in sales to JGI despite total reported revenue of NPR 4.15 Arba. This raises questions around the timing of revenue recognition and actual product movement into the broader market. Although receivables have dropped significantly in Q3, continued transparency on this front will be crucial for investor confidence.

G. Recommendation:

At the current price of NPR 1,177.12, HDL appears to be fairly valued to slightly overvalued relative to conservative DCF estimates. However, if the company sustains earnings growth, improves transparency in related-party dealings, and unlocks further value through premiumization, HDL remains a solid long-term investment from both a growth and value perspective.

From a technical standpoint, the stock is trading near a strong support zone of NPR 1,170, with RSI at 33.63 suggesting oversold conditions. While MACD remains bearish, a bounce from this level is possible if supported by improved volume. The next resistance lies at NPR 1,274, and a breakout above this could pave the way toward NPR 1,350–1,380. On the downside, failure to hold the current support could trigger further consolidation near NPR 1,130.

Overall, the current range offers a technically attractive entry point for long-term investors, especially when combined with HDL's strengthening fundamentals and recovery momentum.

ISSUE OF THE MONTH

How Self-Enhancement/Attribution Affects Investment Decisions

A. What is Self-Enhancement/ Attribution?

Human behavior is shaped by conscious and unconscious decisions which can be swayed by behavioral biases. Many people either tend to make decisions based on a set way of thinking or even more problematically based on feelings alone ignoring many relevant facts. This is a dangerous way to think and invest.

Self-enhancement is one such emotional bias in psychology. Also known as the self-enhancing bias, it is the propensity of people to only credit themselves for their achievements while discounting the role of other individuals or external circumstances in it.

B. Effects of Self-Enhancement/Attribution

Self-Enhancement tends to lead to overconfidence, and we all know that overconfidence in any form always puts investors at a disadvantage in the market. This is because investors that self-attribute tend to credit prior success to their own talents and dismiss the role of timing or other factors in those results. This makes them vulnerable to mistakes.

Investors with this bias are never able to enhance their grasp of how the market truly works as they credit all of their losses to the volatile market and all of their profits to their abilities. While they start by discounting information that questions their abilities, they move on to discounting any sort of market data that contradicts their investing philosophy. This creates many information blind spots for these investors while also making them context deaf w.r.t macro and micro economic factors ultimately setting them up for long term failure.

C. Dealing with Self-Enhancement/Attribution

Self-Enhancement biases can drive investors to make poor judgments and tend to impede them from continuously learning and improving their abilities and tactics. In this context, Recognizing and overcoming ones self-serving and self-enhancement bias will help an investor in improving their investment abilities and approach. However, in

order to do so, an honest and objective examination of our previous decisions, performance, and external circumstances is required.

When we are mindful of our surroundings, we are better able to recognize our vulnerability to self-attribution bias. When a person becomes aware of typical cognitive biases, they may begin to recognize them in their daily life and rectify them.

Another approach to help reduces this prejudice is to develop self-compassion. When someone is self-compassionate, they are able to lower their defensiveness and take criticism more easily when trying to develop themselves. The capacity to notice and commit to reducing one's own pain is known as self-compassion. Self-compassion involves the following:

- An individual's ability to show self-kindness, particularly when confronted with a personal shortcoming.
- The ability of an individual to comprehend their shared humanity, or rather, the fact that they are human and that other individuals have similar experiences and failings, and
- An individual's awareness, or the ability to recognize unpleasant ideas without judging them.

Overall, the key to managing this bias is to understand that we are human after all and that the consequences of our decisions are driven by our own ability as well as external circumstances beyond our control. Understanding this can help us continue to learn and make more informed decisions.

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

HISTORICAL RETURNS

TOP PERFORMING NEPSE STOCKS

PAST 1 YEAR	TICKER	CAGR
	CORBL	429.83%
	RADHI	322.72%
	NRN	310.92%
	GRDBL	310.79%
	BPCL	293.50%

PAST 3 YEARS	TICKER	CAGR
	CORBL	112.02%
	BNL	100.14%
	GRDBL	87.29%
	SAPDBL	66.82%
	NRN	66.48%

PAST 5 YEARS	TICKER	CAGR
	CORBL	86.46%
	GRDBL	68.32%
	SAPDBL	57.73%
	NHDL	54.67%
	NABBC	54.04%

PAST 10 YEARS	TICKER	CAGR
	STC	60.70%
	CORBL	35.99%
	HDL	34.51%
	NABBC	24.11%
	PRIN	23.52%

*Returns are dividend-adjusted on a year-over-year (YoY) basis. Past performance should not be interpreted as indicative of future results. * CAGR means annual growth rate of an investment over specified time period.

Key Dates

Scrip	Issue Type	Quantity	From	To	Issue Manager
DHEL	IPO	1,030,500 (O)	2025/06/23 AD 2082/03/09 BS	2025/07/07 AD 2082/03/23 BS	Laxmi Sunrise Capital
DHEL	IPO	2,91,950 (O)	2025/06/23 AD 2082/03/09 BS	2025/07/07 AD 2082/03/23 BS	Laxmi Sunrise Capital
HSUCL	IPO	1,86,500 (O)	2025/06/13 AD 2082/02/30 BS	2025/06/27 AD 2082/03/13 BS	NIC Asia Capital
HSUCL	IPO	93,250 (O)	2025/06/13 AD 2082/02/30 BS	2025/06/27 AD 2082/03/13 BS	NIC Asia Capital
RHGCL	RIGHT	61,27,938 (O)	2025/06/15 AD 2082/03/01 BS	2025/07/06 AD 2082/03/22 BS	Muktinath Capital
CHL	RIGHT	38,69,775 (O)	2025/06/06 AD 2082/02/23 BS	2025/07/11 AD 2082/03/27 BS	Global IME Capital
CSY	MTUTAL FUND	4,25,00,000 (O)	2025/06/27 AD 2082/03/13 BS	2025/07/01 AD 2082/03/17 BS	Ctitzens Capital

Himalayan Capital Limited
IT Plaza, Kamaladi, Kathmandu,
Contact: 01-5970675
www.himalayancapital.com
info@himalayancapital.com