

16th February 2024

CMP – ₹597/-
View – Accumulate
Q3FY24 Performance

- Gross revenue from operations grew 4% YoY to ₹218crs led by 3.5% volume growth in Elite and Premium segment. Own brands/hospitality revenue grew 3.9%/16% YoY.
- The contribution of elite and premium wines to owned brands increased to 77% of owned brands vs 73.5% in Q3FY23. Popular and economy wines' revenue declined 6.3%
- EBITDA grew 13% YoY to ₹73crs and margin expanded to 33.7% (263 bps) YoY. PAT grew 9.4% YoY to ₹43crs and margin expanded 60bps to 21.2% YoY.
- The company has recommended an interim dividend of ₹4 per share.

Important Statistics

Nifty	21,911
Sensex	72,050
M.CAP (₹ Cr)	₹5,022.20
52 Week H/L (₹)	₹700/327
NSE Code	SULA
BSE Code	543711
Bloomberg Code	SULA:IN

Shareholding pattern (%)	Dec'23
Promoter	26.27
FII	19.69
DII	19.56
Public & Others	34.49

Key takeaways from Q3FY24 result
Relative Performance
Net Sales Growth:

- Net revenue growth, at 6.5% YoY, led by volume/value growth of 3.5%/7.3% in Elite and Premium segment (60% market share in premium segment in domestic grape wine market). Excise duty as % of gross sales stood at 7%. Sula is strategically focusing less on popular and economy segment due to its higher competitive intensity and discounting, resulting in lower profitability.
- Sula own brands' value growth of 3.9% was impacted by the high S&D spends in Maharashtra (netted off from overall sales in MH). As a result, although MH market gross billings grew 15%, the higher S&D spends resulted in single digit revenue growth.
- Management expects double digit growth trajectory in owned brands revenue in Q4, encouraged by strong growth trends witnessed in January month.

Margin:

- Gross Margin during the quarter was 67%, expanded 490 bps YoY. EBITDA grew 18% YoY to ₹44crs margin expanded 200bps to 33.1% YoY.
- Employees' expenses increased 12% while other expenses has declined by 10% YoY. Advertising expenses as a % of sales expanded 350 bps to 13.1% YoY.
- The company expect margin expansion via focus on premiumization and targeting other states with existing presence in Maharashtra, Karnataka, Telengana and Hyderabad.

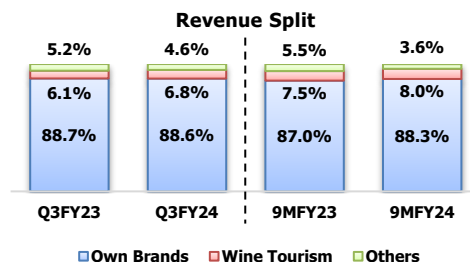
Market Share:

- Higher advertising expenses has improved Sula's market share across key geographies. Apart from metros, tier-2 cities and states such as Punjab and UP are also growing rapidly.
- Advertising expenses as a % of revenue stood at 13% vs 9.5% in Q3FY23.

Wine Tourism/Hospitality (~8% of revenue):

- Sula now has over 100 rooms (67 keys in Mar'23). The vineyard resorts 'The Source' and 'Beyond by Sula' touched ~72% occupancy on expanded number of keys and ARR for the period was ~10,000.

Return(%)	1Yr	3Yr	5Yr
SULA	53	NA	NA
Nifty 50	22	44	108
Sensex	18	39	104

Source: Company, Way2Wealth Research
Q3FY24

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- Wine tourism revenues grew in double digits, for the fourth quarter in a row. On January 27th, Sula achieved a record-breaking single-day revenue and conducting over 2,450 individual tastings, surpassing the previous highs set on December 24th, 2023.

➤ **New Launches:**

- For the first time three of iconic Sula Vineyards brands are available in 250ml cans. Launched Sula Chenin Blanc, Rosé Zin, and Red Zin cans initially in Maharashtra only. Canned wine is becoming a wildly popular format the world over due to sheer convenience and company believe that cans will make their presence felt in the Indian market, greatly expanding accessibility to new audiences.

➤ **Harvest Season:**

- The ongoing 2024 harvest looks extremely promising with excellent quality and abundant quantity for the fourth year in a row, setting up to comfortably meet the increasing demand for Elite and Premium wines.
- Over 3 MW of installed on-site solar power capacity, enabling Sula to meet almost 60% of energy needs through own renewable sources and are on track to achieve over 70% in the near future.
- The company continuous to look forward to delivering strong double-digit volume growth as company's focus will be on driving volume growth through premium segment and expanding market reach.

Risks

- Inflation in raw material prices.
- Any adverse outcome related to excise duty payment could have a material impact on Sula's financials.

View

The company is well placed to leverage the global consumer shift towards the low-alcohol beverage segment with strong backend capabilities and a pan-India distribution network. Sula have been a consistent market leader in the Indian wine industry in terms of sales volume and value since FY09 crossing ~50% market share by value in the domestic 100% grapes wine market.

The management is confident of delivering positive results going forward, driven by premiumisation, focusing on own brands and marketing and digitization expansion also the excellent harvest this year, the ongoing boom in domestic wine tourism, and more consumers choosing premium Indian wines, these trends bode well for the future.

We continue to believe in the company's long-term growth prospects. **At its CMP of ₹597/-, the stock trades at ~51.4 its TTM earnings of ₹11.6. We recommend investors to Accumulate on correction.**

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Quarterly Performance

(₹ Cr)

	Q3FY24	Q3FY23	VAR	Q2FY24	VAR	9MFY24	9MFY23	VAR
Gross Sales	217.54	209.13	4.0%	142.83	52.3%	476.96	433.47	10.0%
Excise duty on Sales	14.5	18.49	-21.6%	9.14		31.74	30.35	4.6%
Net Sales (Net of Excise Duty)	203.04	190.64	6.5%	133.69	51.9%	445.22	403.12	10.4%
Total Operating Income	203.0	190.6	6.5%	133.7	51.9%	445.2	403.1	10.4%
Other Income	1.4	0.89	57.3%	0.89	57.3%	3.86	2.58	49.6%
TOTAL INCOME	204.4	191.5	6.7%	134.6	51.9%	449.1	405.7	10.7%
Total Raw Material Cost	57.2	60.7	-5.7%	29.2	95.8%	109.4	109.4	0.0%
Cost of Raw Material & Components Consumed	18.51	18.08	2.4%	15.56	19.0%	44.97	38.68	16.3%
(Increase)/ Decrease in Inventories	32.36	36.84	-12.2%	10.13	219.4%	50.4	53.3	-5.4%
Purchase of Traded Goods	6.35	5.75	10.4%	3.54	79.4%	13.98	17.37	-19.5%
<i>Total Raw Material Cost % to Sales</i>	<i>28.2%</i>	<i>31.8%</i>		<i>21.9%</i>		<i>24.6%</i>	<i>27.1%</i>	
Employee Cost	22.52	20.06	12.3%	21.58	4.4%	65.38	57.16	14.4%
<i>Employee Cost % to Sales</i>	<i>11.1%</i>	<i>10.5%</i>		<i>16.1%</i>		<i>14.7%</i>	<i>14.2%</i>	
Selling & Distribution Expenses	26.52	18.14	46.2%	14.24	86.2%	53.52	42.73	25.3%
<i>Selling & Distribution Expenses % of Sales</i>	<i>13.1%</i>	<i>9.5%</i>		<i>10.7%</i>		<i>12.0%</i>	<i>10.6%</i>	
Other Expenses	24.94	27.74	-10.1%	24.44	2.0%	70.58	67.23	5.0%
<i>Other Expenses % of Sales</i>	<i>12.3%</i>	<i>14.6%</i>		<i>18.3%</i>		<i>15.9%</i>	<i>16.7%</i>	
TOTAL EXPENDITURE	131.2	126.6	3.6%	89.5	46.6%	298.8	276.5	8.1%
EBIDTA	71.8	64.0	12.2%	44.2	62.5%	146.4	126.7	15.6%
<i>EBIDTA Margin %</i>	<i>35.4%</i>	<i>33.6%</i>		<i>33.1%</i>		<i>32.9%</i>	<i>31.4%</i>	
Finance Costs	8.09	5.78	40.0%	6.52	24.1%	19.93	16.25	22.6%
PBDT	65.2	59.1	10.2%	38.6	68.9%	130.3	113.0	15.3%
Depreciation, Amortization & Impairment	8.11	6.5	24.8%	7.61	6.6%	23.28	19.08	22.0%
PBT Before Tax	57.0	52.6	8.4%	31.0	-	107.0	93.9	14.0%
Tax	14.07	13.36	5.3%	7.87	78.8%	27.3	24.11	13.2%
<i>Tax Rate %</i>	<i>24.7%</i>	<i>25.4%</i>		<i>25.4%</i>		<i>25.5%</i>	<i>25.7%</i>	
Reported Profit	43.0	39.3	9.4%	23.1	86.1%	79.7	69.8	14.3%
<i>PAT Margin %</i>	<i>21.2%</i>	<i>20.6%</i>		<i>17.3%</i>		<i>17.9%</i>	<i>17.3%</i>	
Other Comprehensive Income (net of tax)	0.3	0.2		0.0		-0.98	-0.06	
Total Comprehensive Income	43.3	39.5	9.8%	23.1	87.3%	78.8	69.7	12.9%
EPS	5.09	4.65	9.4%	2.73	86.1%	9.44	8.26	14.3%
Equity	16.9	16.9	0.0%	16.9		16.9	16.9	0.0%
Face Value	2.0	2.0		2.0		2.0	2.0	

Source: Company, Way2wealth Research

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Disclosure of Interest Statement : Sula Vineyards Ltd (SULA) as on February 16, 2023

Name of the Security	Sula Vineyards Ltd (SULA)
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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