

16th June 2023

CMP – ₹468/-

View – Buy

Company Overview

Incorporated in 1999, Sula Vineyard Limited (Sula) manufactures, markets and distributes wines in the domestic market. Sula is headquartered in Nashik, Maharashtra, and has four owned and two leased manufacturing facilities located in Maharashtra and Karnataka, which are also the top wine-consuming states contributing close to 57% of the overall wine market in India in FY20.

Business can be broadly classified under two categories:

- **Wine Business:** The production of wine, the import of wines and spirits, and the distribution of wines and spirits.
- **Wine Tourism:** the sale of services from ownership and operation of wine tourism venues, including vineyard resorts and tasting rooms.

The company diversified into the hospitality business in 2010, which provides higher margins than wines. The company owns two wine resorts, **The Source at Sula** and **Beyond by Sula**, offering a wide range of room types and services.

The company distribute wines under a bouquet of popular brands. In addition to the flagship brand "Sula," popular brands include **"RASA," "Dindori," "The Source," "Satori," "Madera" & "Dia"** with its flagship brand **"Sula"** being the **"category creator"** of wine in India.

Furthermore, Sula is among the top ten most followed vineyards in the world, with a large following on social media of approximately 124,000 followers on each platform, Instagram and Facebook and approximately 13,700 followers on Twitter as on June 13, 2023.

Important Statistics

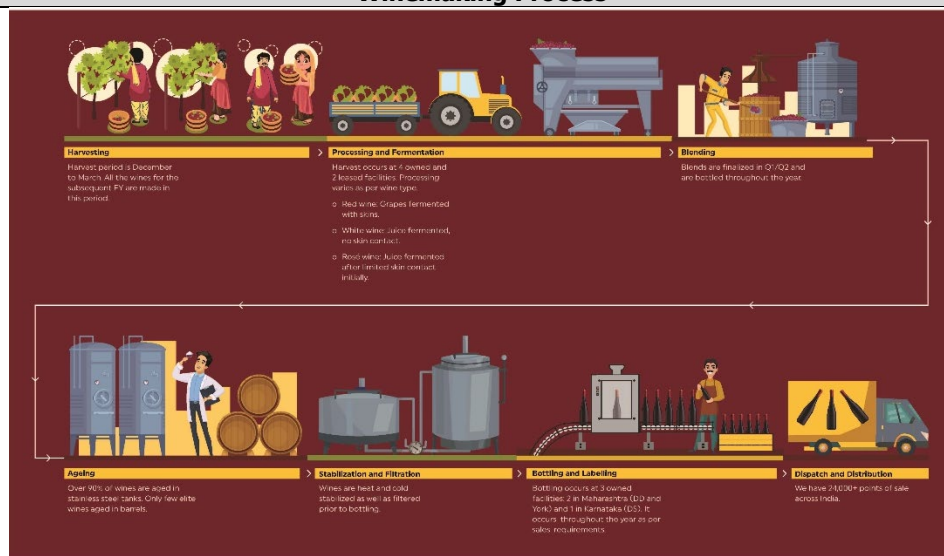
| | |
|------------------------|-----------|
| MCAP (₹ Cr) | ~₹3,941Cr |
| 52 Week H/L (₹) | 482/306 |
| NSE Code | SULA |
| BSE Code | 543711 |

| Shareholding Pattern% | Mar-23 |
|-----------------------|--------|
| Promoters | 27.3 |
| DII | 11.8 |
| FII | 05.9 |
| Public & Others | 55.1 |

| Particulars | FY21 | FY22 | FY23 |
|----------------------|------|------|-------|
| Revenue | 386 | 424 | 516 |
| EBITDA | 64 | 113 | 158 |
| EBITDA Margin | 17% | 27% | 31% |
| Net Profit | 3 | 52 | 84 |
| EPS (₹) | 1.98 | 6.63 | 9.97 |
| RoE (%) | 1.0 | 13.2 | 15.8% |
| RoCE (%) | 10.7 | 20.9 | 23.0 |
| P/E (x) | | 70.6 | 46.9 |

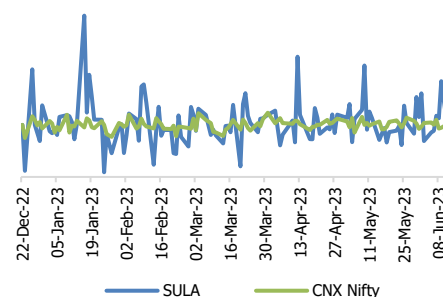
Source: Company, Way2Wealth

Winemaking Process



Source: Annual Report

Relative Performance



Source: Company Data, Way2Wealth

Product Portfolio

Still Wine: Wine that is neither sparkling nor fortified. Still wine constituted ~87% of total production, with 13 labels under the Elite category, 11 labels each under the Premium and Economy categories and 9 labels under the Popular category.

Sparkling wine: Wine that contains bubbles from dissolved carbon dioxide. Sparkling wine constituted 13% of total production, with 6 labels under the Elite category and 2 labels each under Premium and Economy categories.

16th June 2023

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Management Team

| Name | Designation |
|--|---------------------|
| Mr. Rajiv Sawant | Promoter, MD & CEO |
| Mr. Chaitanya Rathi | COO |
| Mr. Bittu Varghese | CFO (Apr'19-Mar'23) |
| New Chief Financial Officer will come on board in August. | |

Why we like Sula Vineyards Ltd

- India's largest and only listed wine producer, with over 50% share in the domestic wine business.
- Sula pioneered wine tourism in India and today over 3 lakh visitors visit Sula's iconic Nasik estate annually
- Own brands have been the star of the show, with their contribution to revenue going to 87%, a massive 23% jump from FY20 led by successful focus on premiumisation
- Secured supply of raw material with long-term contracts (10-12 years). Company have access to ~2,800 acres of vineyards, which is significantly higher than the second largest wine company.
- Demonstrated record in acquiring and successfully integrating companies and teams over the last few years
- Strong financial performance on all matrix

Investment Arguments

Market leadership to continue driving revenues

- Indian alcoholic beverage market has strong market leaders in all the segments controlling majority of the markets. Given the nature of industry and strict regulations, there are high entry barriers in the industry. Established players are well entrenched with manufacturing units across the country, collaboration for raw material and working relationship with state and central government officials.
- The top three players in wine market control ~80% by value of the domestic grape wine market, and Sula is the leader of the domestic wine segment (53% market share)
- Sula has a strong brand name with a dominant market share in the domestic wine industry, driven by its vast portfolio of wine brands across the price spectrum and an expansive distribution network. It produces more than 56 labels of red, white and sparkling wines and the brands are classified into 'elite', 'premium', 'economy'

16th June 2023

CMP – ₹468/-

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and 'popular' segments based on their price, composition, taste and other properties such as alcohol content.

- Going forward, increasing contribution from the elite and premium segments is expected to continue supporting Sula's revenues and margins over the long-term.
- Sula have been a consistent market leader in the Indian wine industry in terms of sales volume as well as value (on the basis of total revenue from operations).
- The share of wine as a form of alcohol consumption in India in FY20 was less than 1%, whereas globally, the contribution of wines to alcohol consumption was close to 13.5% during the same period, (Source: Technopak Report) suggesting significant room for growth.

Largest wine distribution network and sales presence

- As of 31 March, 2023, company have a presence in 26 states and six union territories in India. The entry of new players in the distribution of alcoholic beverage industry in India is prohibitive due to high regulation across states and strong relations between the current players and retail outlets which may include exclusive arrangements and Sula is the undisputed leader of the Indian Wine Industry.
- The company is the leader in on-trade channel, contributing 23% of total revenue in FY23. Additionally, off-trade sales contribution increased from 61.33% in FY20 to 72% in FY23.
- Sula also have a strong direct to consumer selling channel at wine tourism facilities in Nashik and Bengaluru with an average sale of approximately 3,10,000 bottles in FY23.

| Distribution Network | |
|----------------------|--------|
| Retail Touchpints | 13,500 |
| Hotels, Restaurants | 9,000 |
| Distributors | 50 |
| Corporations | 11 |
| Licensed resellers | 14 |
| Company Depots | 7 |
| Defense Unit | 3 |

Secured supply of raw material with long-term contracts exclusive to Sula

- The top wine producing states, Maharashtra and Karnataka, are also the top consuming states, contributing close to 57% of the overall wine market in India.
- The company have access to ~2,800 acres of vineyards, which is significantly higher than the second largest wine company in the Indian market at close to 460 acres (Source: Technopak Report). Of these 2,800 acres, they have entered into long-term supply arrangements (of up to 12 years) with contract farmers for ~ 2,160 acres. Such long-term supply arrangements cover more than 90% of annual supply of wine grapes, and company intend to continue expand wine grape supply via long term contracts with third-party farmers.

Sula has the highest acreage of grape production among peers.

| Acreage | Commencement | 2006 | 2010 | 2015 | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------|--------------|------|------|------|------|------|------|------|------|
| Sula | 1998 | 1500 | 1800 | 200 | 2650 | 2800 | 2600 | 2521 | 2800 |
| Fratelli Wines | 2007 | 80 | 240 | 240 | 240 | 240 | 240 | 240 | |
| Gorver Zampa | 1988 | 410 | 410 | 410 | 460 | 460 | 460 | 460 | |

Growth in Wine Tourism (D2C)

- Sula have been a pioneer of wine tourism in India, which has led to a strong D2C presence. The combination of resorts, tasting rooms and restaurants, have helped to create a unique wine culture in India. For example, Sula launched the first wine tasting room in India in FY05 in Nashik, Maharashtra and in FY17, established

16th June 2023

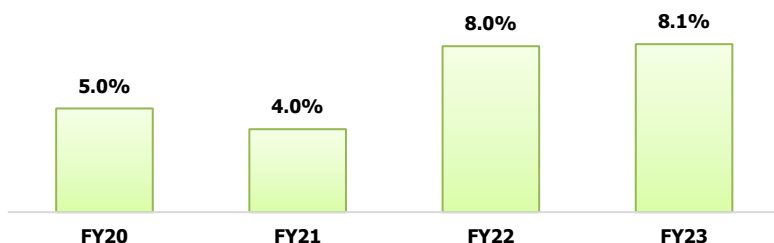
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another tasting room at “Domaine Sula” facility in Karnataka, thereby establishing the concept of wine tourism in India. The wine tourism curated experiences, such as wine tasting sessions, winery tours and gourmet dining options at wineries, enabling to build a stronger connect with consumers and popularise wine tourism in the country.

- The company have conducted ~90,000, 43,000, 85,000, 1,30,000 wine tasting sessions during FY20, FY21, FY22 and FY23, respectively.
- As part of Wine Tourism Business, the company own and **operate “The Source at Sula”** and **“Beyond by Sula”** vineyard resorts located at and adjacent to facility in Nashik, having a combined room capacity of 67 rooms. During FY23 Sula’s resorts recorded an approximate revenue per room of ₹10,500. Supplementing wine tourism business, Sula have experienced a strong and consistent D2C demand for wines from visitors at wine tourism facilities in Nashik and Bengaluru with an average sale ~310,000 bottles.

Wine Tourism % of sales

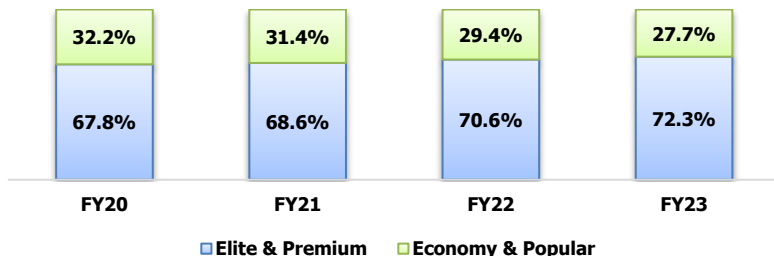


Source: Company, Way2Wealth

Focus on premiumization of product portfolio

- The company currently has a total of 34 labels under the ‘Elite’ and ‘Premium’ categories, providing the largest offering in the Indian wine market under these segments. The share in the ‘Elite’ and ‘Premium’ categories was 68% by value in FY20 which significantly increased to 72% in FY23.
- The company have been successful in consistently raising the prices of wines by an annual (fiscal) average of 6% from FY19 to FY22 and also witnessed a consistent growth in the volume of sales in “Elite” and “Premium” categories from 393,878 cases sold in FY20 to 550,278 cases sold in FY23, signifying a greater demand for premium wines in the Indian wine market.

Own Brands revenue by categories



Source: Company, Way2Wealth

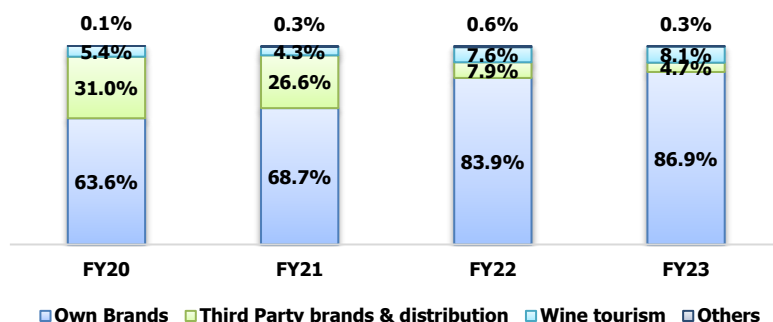
16th June 2023

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- The company made a clear shift towards focusing on its own brands in FY20, a shift that was further accelerated by the Covid-19 pandemic. Management is expecting further degrowth in FY24.

Revenue Split by Business Segments



Source: Company, Way2Wealth

| Particulars – Wine Business | 2023 | 2022 |
|------------------------------|---------|---------|
| Elite and Premium | | |
| Number of cases | 550,278 | 442,833 |
| Volume contribution (%) | 51.9 | 49.6 |
| Revenue of operations (Cr) | 347.6 | 268.8 |
| Revenue contribution (%) | 72.3 | 70.6 |
| Economy and Popular | | |
| Number of cases | 510,974 | 450,712 |
| Volume contribution (%) | 48.1 | 50.4 |
| Revenue of operations (₹ Cr) | 133.1 | 112.1 |
| Revenue contribution (%) | 27.7 | 29.4 |

Source: Company, Way2Wealth

Strategic investments and acquisitions to further consolidate the Indian wine industry

- The company have a demonstrated record in acquiring and successfully integrating companies and teams over the last few years, with two significant acquisitions in the last five years.
- The acquisition of “**Heritage**” in FY17 was strategic, with its first owned manufacturing facility in Karnataka, allowing to avail the benefit of significantly lower duties on the sale of wines in Karnataka and also offering growth potential to increase Wine Tourism Business.

Strong Financial Performance on all matrix

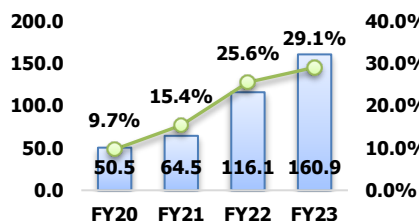
- Sula's Ebitda margin expanded from 10% in FY20 to 31% in FY23 due to series of actions including:
 - Premiumisation:** Increase in volume share of Elite and Premium wines from 48% in FY20 to 72% in FY23
 - Price:** Upward price revisions for some own brands in select markets.
 - Import Rationalisation:** Reduced sale of non-profitable third party brands

16th June 2023

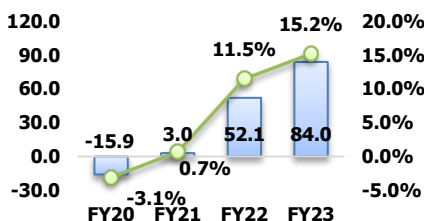
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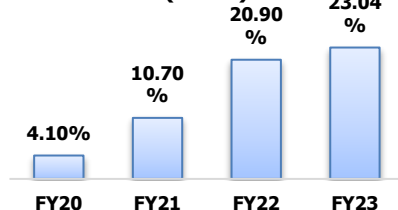
EBITDA (₹ Cr) & Margin (%)



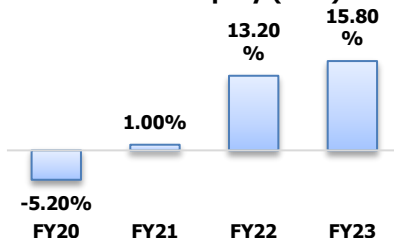
PAT (₹ Cr) & Margin (%)



Return on Capital Employed (ROCE)



Return on Equity (ROE)



Source: Company, Way2Wealth

Peer

The firm also grew sales more quickly than peers in the pre-Covid decade

| | | FY11-14 | FY11-19 | FY11-21 | FY14-19 | FY20-21 |
|---------|------------------|---------|---------|---------|---------|---------|
| Spirits | Diageo | 9.80% | 4.40% | 2.20% | 1.30% | -13.20% |
| | Pernod Ricard | NA | NA | NA | 10.30% | -11.00% |
| | Radico Khaitan | 15.40% | 10.50% | 9.80% | 7.60% | -0.40% |
| Beer | United Breweries | 11.40% | 9.80% | 3.30% | 8.90% | -34.80% |
| | Sula | 27.80% | 20.60% | 12.80% | 16.40% | -13.70% |
| Wine | Fratelli Wines | NA | NA | NA | 37.80% | 1.70% |
| | Grover Zampa | NA | NA | NA | 19.10% | -27.20% |

Source: DRHP

EBITDA margin also shining strong

| | EBITDA Margin | FY20 | FY21 | FY22 | FY23 |
|-------------|-----------------------|------------|------------|------------|------------|
| Spirits | United Spirits | 17% | 13% | 17% | 13% |
| | Radico Khaitan | 16% | 17% | 14% | 11% |
| Beer | United Breweries | 13% | 9% | 12% | 8% |
| Wine | Sula Vineyards | 11% | 17% | 27% | 31% |

| | PAT Margin | FY20 | FY21 | FY22 | FY23 |
|-------------|-----------------------|------------|-----------|------------|------------|
| Spirits | United Spirits | 7% | 4% | 8% | 11% |
| | Radico Khaitan | 10% | 12% | 9% | 7% |
| Beer | United Breweries | 7% | 3% | 6% | 4% |
| Wine | Sula Vineyards | -3% | 1% | 12% | 16% |

Source: DRHP

Risks

- Changes in government regulation related to taxation.
- Wine business benefit from high import duties imposed on imports of international wines in India, but these duties could be reduced or eliminated in the future, adversely affecting wine business.
- Adverse climatic conditions may impact the quality of wine grapes which are key raw materials.
- Inflationary pressure in raw material prices.

View

FY23 has been a landmark year for Sula Vineyards as the year ended with a record-breaking performance and reported an all-time high EBITDA of ₹161Cr registering a growth of 38% YoY and a record PAT at ₹84Cr growing at 61% YoY.

Own brands have been the star of the show, with their contribution to revenue going to 87%, a massive 23% jump from FY20 led by premiumisation within own brands, revenues from Elite & Premium wines have grown 29% YoY supported by a strong volume growth of 24% in this category.

It was a booming year for wine tourism business with over 340,000 visitors from across the country and the globe visiting iconic vineyards in Maharashtra and Karnataka.

The company is well placed to leverage the global consumer shift towards the low-alcohol beverage segment with strong backend capabilities and a pan-Indian 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.

Given the healthy EBITDA margin (~32% in FY23), execution strength, strong brand recall, investment in capacities, and increasing distribution reach, along with higher market share, we expect Sula to put up a strong show in the longer term. **We expect an EPS CAGR of 21% over the next two years and initiate with a BUY rating.**

16th June 2023

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QUARTERLY PERFORMANCE

| | | | | | | | | (₹ Cr) |
|--|--------|--------|---------|--------|---------|-------|--------|---------|
| Particulars | Q4FY23 | Q4FY22 | VAR | Q3FY23 | VAR | FY23 | FY22 | VAR |
| Gross Sales | 119.9 | 112.1 | 7.0% | 209.2 | -42.7% | 553.2 | 453.9 | 21.9% |
| Excise duty on Sales | 6.8 | 5.6 | % | 18.4 | | 36.9 | 29.5 | % |
| Net Sales (Net of Excise Duty) | 113.1 | 106.5 | 6.2% | 190.8 | -40.7% | 516.3 | 424.4 | 21.7% |
| Other Operating Income | | | #DIV/0! | | #DIV/0! | 0 | 0 | #DIV/0! |
| Total Operating Income | 113.1 | 106.5 | 6.2% | 190.8 | -40.7% | 516.3 | 424.4 | 21.7% |
| Other Income | 0.9 | 0.7 | 28.6% | 0.89 | 1.1% | 3.5 | 2.8 | 25.0% |
| TOTAL INCOME | 114.0 | 107.2 | 6.3% | 191.7 | -40.5% | 519.8 | 427.2 | 21.7% |
| Total Raw Material Cost | 23.6 | 20.9 | 12.9% | 60.7 | -61.1% | 133.1 | 117.1 | 13.6% |
| Cost of Raw Material & Components Consumed | 81.8 | 70.4 | 16.2% | 18.1 | 351.9% | 120.5 | 111.42 | 8.1% |
| (Increase)/ Decrease in Inventories | -61.8 | -56.9 | 8.6% | 36.8 | -267.9% | -8.5 | -14.7 | -42.2% |
| Purchase of Traded Goods | 3.6 | 7.4 | -51.4% | 5.8 | -37.9% | 21.1 | 20.4 | 3.4% |
| Total Raw Material Cost % to Sales | 20.9% | 19.6% | | 31.8% | | 25.8% | 27.6% | |
| Employee Cost | 20.3 | 17.9 | 13.4% | 20.1 | 1.0% | 77.5 | 65.3 | 18.7% |
| Employee Cost % to Sales | 17.9% | 16.8% | | 10.5% | | 15% | 15.4% | |
| Selling & Distribution Expenses | 12.6 | 9.9 | 27.3% | 18.1 | -30.4% | 55.3 | 44.5 | 24.3% |
| Selling & Distribution Expenses % of Sales | 11.1% | 9.3% | | 9.5% | | 10.7% | 10.5% | |
| Other Expenses | 25.9 | 29 | -10.7% | 27.8 | -6.8% | 92.9 | 84.1 | 10.5% |
| Other Expenses % of Sales | 22.9% | 27.2% | | 14.6% | | 18% | 19.8% | |
| TOTAL EXPENDITURE | 82.4 | 77.7 | 6.0% | 126.7 | -35.0% | 358.8 | 311.0 | 15.4% |
| EBIDTA | 30.7 | 28.8 | 6.6% | 64.1 | -52.1% | 157.5 | 113.4 | 38.9% |
| EBIDTA Margin % | 27.1% | 27% | | 33.6% | | 30.5% | 26.7% | |
| Finance Costs | 4.8 | 4.7 | 2.1% | 5.8 | -17.2% | 21.1 | 22.9 | -7.9% |
| PBDT | 26.8 | 24.8 | 8.1% | 59.2 | -54.7% | 139.9 | 93.3 | 50.0% |
| Depreciation, Amortization & Impairment | 6.8 | 6.1 | 11.5% | 6.5 | 4.6% | 25.9 | 23.6 | 9.7% |
| PBT before Tax | 20.0 | 18.7 | 7.0% | 52.7 | -62.0% | 114.0 | 69.7 | 63.6% |
| Tax | 5.8 | 5 | 16.0% | 13.4 | -56.7% | 29.9 | 17.4 | 71.8% |
| Tax Rate % | 29.0% | 26.7% | | 25.4% | | 26.2% | 25.0% | |
| Reported Profit after Tax | 14.2 | 13.7 | 3.6% | 39.3 | -63.9% | 84.1 | 52.3 | 60.9% |
| PAT Margin % | 12.6% | 12.9% | | 20.6% | | 16.3% | 12.3% | |
| Other Comprehensive Income (net of tax) | 0.9 | 0.1 | | 0.2 | | 0.8 | -0.1 | |
| Total Comprehensive Income | 15.1 | 13.8 | 9.4% | 39.5 | -61.8% | 84.9 | 52.2 | 62.7% |
| Basic: | | | | | | | | |
| EPS | 1.68 | 1.75 | -3.7% | 4.70 | -64.3% | 10.05 | 6.65 | 51.2% |
| Equity | 16.9 | 15.7 | | 16.8 | | 16.9 | 15.7 | |
| Face Value | 2.0 | 2.0 | | 2.0 | | 2.0 | 2.0 | |

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FINANCIALS & VALUATION

(₹ Cr)

| | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|-------------------------|--------------|--------------|--------------|-------------|-------------|--------------|--------------|--------------|
| Sales | 418 | 501 | 485 | 386 | 424 | 516 | 600 | 695.0 |
| YoY Growth | | 20% | -3% | -20% | 10% | 22% | 16% | 16% |
| Material Cost | 143.2 | 166.0 | 173.0 | 82.9 | 66.2 | 79.7 | 90.0 | 104.3 |
| Manufacturing Cost | 16.9 | 37.0 | 32.0 | 60.6 | 74.3 | 88.3 | 102.0 | 118.2 |
| Employee Cost | 60.5 | 63.4 | 80.2 | 68.3 | 69.8 | 79.9 | 90.0 | 104.3 |
| Other Cost | 139.9 | 156.3 | 132.7 | 102.4 | 97.1 | 104.4 | 120.0 | 139.0 |
| Operating Profit | 57 | 78 | 67 | 72 | 117 | 164 | 198 | 229 |
| Margin | 14% | 16% | 14% | 19% | 27% | 32% | 33% | 33% |
| Other Income | 3 | 3 | 0 | 0 | 3 | 5 | 6 | 7 |
| Interest | 17 | 24 | 31 | 32 | 21 | 19 | 24.0 | 27.8 |
| Depreciation | 15 | 19 | 34 | 25 | 22 | 24 | 30.0 | 34.8 |
| PBT | 29 | 38 | -12 | 0 | 66 | 118 | 150.0 | 173.8 |
| Margin | 7% | 8% | -2% | 0% | 16% | 23% | 25% | 25% |
| Tax Rate | 35% | 49% | 32% | -130% | 26% | 25% | 25% | 25% |
| Tax Exp | 10.15 | 18.62 | -3.84 | 0 | 17.16 | 29.5 | 37.5 | 43.4 |
| PAT | 18.85 | 19.38 | -8.16 | 0 | 49 | 89 | 113 | 130 |
| Margin | 5% | 4% | -2% | 0% | 12% | 17% | 19% | 19% |
| EPS | 2.24 | 2.30 | -0.97 | 0.00 | 5.80 | 10.51 | 13.36 | 15.48 |

Source: Company, Way2Wealth

Giving a ~10% discount to the average multiple for other listed alcohol beverage players (USL, United Breweries and Radico Khaitan)

| Potential Upside ~22% | |
|-----------------------|------------|
| CMP | 468 |
| MCap | ₹3941Cr |
| FY25 EPS | 15.5 |
| Multiple | 37 |
| Target Price | 573 |
| Upside | 22% |

Source: Company, Way2Wealth

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Disclosure of Interest Statement SULA VINEYARDS LTD. as on 16th June 2023

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| Name of the Security | SULA VINEYARDS LTD. |
| 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 |
| Way2Wealth ownership of any stock related to the information contained | NIL |
| Broking relationship with company covered | NIL |
| Investment Banking relationship with company covered | NIL |

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