

Q1FY24: Robust Performance led by premium and elite category
Important Statistics

- Gross revenue from operations grew 21% YoY to ₹117Cr led by 15/30% volume and value growth in sale of own brands. Own brands/hospitality revenue grew 30%/12% YoY.
- The contribution of elite and premium wines to total revenue increased to 74% in 1QFY24 from 69% in 1QFY23
- EBITDA grew 20% YoY to ₹30Cr and margin expanded to 28% (60 bps) YoY. PAT grew 24% YoY to ₹13.7Cr and margin expanded 70bps to 12.6% YoY.
- The company also announces the appointment of Abhishek Kapoor as CFO
- Management is confident of delivering positive results going forward, driven by premiumisation, focusing on own brands and marketing and digitization expansion.

M.CAP (₹ Cr)	₹4,166
52 Week H/L (₹)	₹535/306
NSE Code	SULA
BSE Code	543711

Shareholding pattern (%)	Jun'23
Promoter	27.27
FII	06.78
DII	10.23
Public & Others	55.73

Key takeaways from Q1FY24 result

- **Net Sales Growth:**
 - Net revenue growth, at 17.7% YoY, lagged gross revenue growth due to a ~265 bps YoY rise in excise duty to 6.9%. This was owing to an adverse state mix (lower share of MH).
 - Monsoons in the Nashik region were slightly below normal, but that does not impact wine grapes. Hence, the harvest season is expected to be robust for the fourth straight year.
- **Margin:**
 - Gross Margin during the quarter was 78.9%, expanded 110 bps YoY. EBITDA grew 20% YoY to ₹30.4Cr margin expanded 60bps to 28% YoY, as GM expansion was offset by higher S&D and marketing expenses
 - Employee/Advertising/Other expenses increased 16%/26%/18% YoY
 - The company expect margin expansion via focus on premiumization and targeting other states with existing presence in Maharashtra, Karnataka, Telengana and Hyderabad.
- **New Appointment:**
 - The company also announces the appointment of Abhishek Kapoor as CFO. He brings over two decades of expertise in financial planning and accounting from various FMCG, Media, and Auto companies in the past like PepsiCo and Godrej Consumer. He joins Sula from a successful stint at Wagh Bakri Tea, where he made significant contributions to the company's growth and consolidated its market position through strategic financial guidance.
- **Market Share:**
 - Sula gained substantial market share in the elite and premium categories, whereas it lost some in the popular and economy segment by choice. Despite this strategic choice, management is confident in maintaining their overall market share due to their advantageous position in terms of scale and financial resources for funding future growth stages.
 - Management attributed the lagged growth of net revenue and gross profit over gross revenue growth to higher growth of non-Maharashtra regions over Maharashtra (most profitable state, as net revenue and gross profit includes VAT refunds that boost overall profitability)

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➤ **Wine Tourism/Hospitality (10% of revenue):**

- Wine tourism has also shown double-digit growth and Sula now has over 100 rooms at resorts, grew 50% QoQ from 67 rooms in Q4FY23. Wine tasting sessions ~30%+ YoY growth in total tasting to 46K from 36K in 1QFY23. This will drive further growth in wine tourism business in the coming years.

➤ **Guidance:**

- The company continuous to look forward to delivering strong double-digit volume growth and margin for FY24 is expected to moderate compared with FY23, settling a couple of hundred basis points lower (~27%) as company's focus will be on driving volume growth and expanding market reach.
- For FY24, Sula has outlined a total capex outlay of ₹55-60Cr. The company incurred ~₹85Cr in FY23; marking the highest ever two-year capex outlay for Sula. The ongoing capex is for to expand the production capacity (current capacity stands at 16.7 and proposed 6 mn liter capacity expansion in phase-1) and for setting up solar units for power generation and for a new tasting room.

➤ **Regulatory Overhang:**

- Management anticipates a positive outcome for the renewal of the WIPS subsidy. The VAT refund to be received stood at ₹12-13Cr and the amount received during 1Q stood at ~₹4Cr.
- Management clarified that the blending during the entire period was done within Maharashtra (subject to excise duty payment upon blending with grapes from outside Maharashtra) and any excise duty payments were made as required, especially for units blending grapes from outside Maharashtra or units exporting to other states. The company has communicated the situation to the authorities and expects a positive resolution. It expects the fiscal liability to be nowhere close to the ₹100 mentioned in the demand notice. Management expects some clarity soon, as the judge directed the government to hear the matter in the next four months

Risks

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

View

FY23 was a remarkable year for Sula Vineyards Ltd led by premiumization efforts coupled with strengthening brand equity. 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.

We continue to believe in the company's long-term growth prospects. **At its CMP of ₹492/-, the stock trades at ~44.1 its TTM earnings of ₹11.16 and recommend investors to Add this stock on corrections.**

16th August 2023

CMP – ₹492/-

View – Add on Dips

Quarterly Performance

(₹ Cr)

	Q1FY24	Q1FY23	VAR	Q4FY23	VAR [%]	FY23	Q4FY23
Gross Sales	116.59	96.34	21.0%	119.9	-2.8%	553.2	119.9
Excise duty on Sales	8.1	4.16	%	6.8		36.9	6.8
Net Sales (Net of Excise Duty)	108.49	92.18	17.7%	113.1	-4.1%	516.3	113.1
Other Operating Income			#DIV/0!		#DIV/0!	0	
Total Operating Income	108.5	92.2	17.7%	113.1	-4.1%	516.3	113.1
Other Income	1.57	0.86	82.6%	0.9	74.4%	3.5	0.9
TOTAL INCOME	110.1	93.0	18.3%	114.0	-3.5%	519.8	114.0
Total Raw Material Cost	22.9	20.4	12.1%	23.6	-3.0%	133.1	23.6
Cost of Raw Material & Components Consumed	10.9	8.46	28.8%	81.8	-86.7%	120.5	81.8
(Increase)/ Decrease in Inventories	7.91	6.11	29.5%	-61.8	-112.8%	-8.5	-61.8
Purchase of Traded Goods	4.09	5.86	-30.2%	3.6	13.6%	21.1	3.6
<i>Total Raw Material Cost % to Sales</i>	<i>21.1%</i>	<i>22.2%</i>		<i>20.9%</i>		<i>25.8%</i>	<i>20.9%</i>
Employee Cost	21.28	18.31	16.2%	20.3	4.8%	77.5	20.3
<i>Employee Cost % to Sales</i>	<i>19.6%</i>	<i>19.9%</i>		<i>17.9%</i>		<i>15.0%</i>	<i>17.9%</i>
Employee Stock Option Expenses			#DIV/0!		#DIV/0!	0	
<i>Employee Stock Option Expenses % of Sales</i>	<i>0.0%</i>	<i>0.0%</i>		<i>0.0%</i>		<i>0.0%</i>	<i>0.0%</i>
Selling & Distribution Expenses	12.76	10.14	25.8%	12.6	1.3%	55.3	12.6
<i>Selling & Distribution Expenses % of Sales</i>	<i>11.8%</i>	<i>11.0%</i>		<i>11.1%</i>		<i>10.7%</i>	<i>11.1%</i>
Other Expenses	21.2	18.04	17.5%	25.9	-18.1%	92.9	25.9
<i>Other Expenses % of Sales</i>	<i>19.5%</i>	<i>19.6%</i>		<i>22.9%</i>		<i>18.0%</i>	<i>22.9%</i>
TOTAL EXPENDITURE	78.1	66.9	16.8%	82.4	-5.2%	358.8	82.4
EBIDTA	30.4	25.3	20.2%	30.7	-1.1%	157.5	30.7
EBIDTA Margin %	28.0%	27.4%		27.1%		30.5%	27.1%
Finance Costs	5.32	5.01	6.2%	4.8	10.8%	21.1	4.8
PBDT	26.6	21.1	26.0%	26.8	-0.7%	139.9	26.8
Depreciation, Ammortization & Impairment	7.56	6.23	21.3%	6.8	11.2%	25.9	6.8
Profit before tax	19.0	14.9	28.0%	20.0	-	114	20.0
Tax	5.36	3.88	38.1%	5.8	-7.6%	29.9	5.8
<i>Tax Rate %</i>	<i>28.2%</i>	<i>26.1%</i>		<i>29.0%</i>		<i>26.2%</i>	<i>29.0%</i>
Reported Profit	13.7	11.0	24.4%	14.2	-3.7%	84.1	14.2
PAT Margin %	12.6%	11.9%		12.6%		0.16%	12.6%
Other Comprehensive Income (net of tax)	-1.4	-0.4		0.9		0.8	0.9
Total Comprehensive Income	12.3	10.6	16.5%	15.1	-18.3%	84.9	15.1
Basic:							
EPS	1.62	1.30	24.4%	1.68	-3.7%	10.04%	1.68
Equity	16.9	16.9	0.0%	16.9		16.9	16.9
Face Value	2.0	2.0		2.0		2	2.0

Source: Company, Way2wealth Research

16th August 2023

CMP – ₹492/-

View – Add on Dips

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Disclosure of Interest Statement : Sula Vineyards Ltd (SULA) as on August 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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