

17<sup>th</sup> November 2023

CMP – ₹479/-

View – **Accumulate on Dips**
**Q2FY24: Robust Performance led by Premium Wine Segment**
**Important Statistics**

- Gross revenue from operations grew 12% YoY to ₹143crs led by 3%/12% volume and value growth in sale of own brands. Own brands/hospitality revenue grew 12%/27% YoY.
- The contribution of elite and premium wines to owned brands increased to 73.5% in Q2FY24 up 15% YoY.
- EBITDA grew 18% YoY to ₹44crs and margin expanded to 33.1% (200 bps) YoY. PAT grew 18% YoY to ₹23crs and margin expanded 100bps to 17.3% YoY.
- Management is confident of delivering positive results going forward, driven by premiumisation, focusing on own brands and marketing and digitization expansion.

<b>Nifty</b>	19,765
<b>Sensex</b>	65,982
<b>M.CAP (₹crs)</b>	₹4071
<b>52 Week H/L (₹)</b>	₹535/306
<b>NSE Code</b>	SULA
<b>BSE Code</b>	543711
<b>Bloomberg Code</b>	SULA:IN

<b>Shareholding pattern (%)</b>	<b>Sep'23</b>
Promoter	26.27
FII	20.61
DII	17.52
Public & Others	35.60

**Key takeaways from Q1FY24 result**
**Relative Performance**
**Net Sales Growth:**

- Net revenue growth, at 11.1% YoY, led by strong volume/value growth of 13.3%/15% in Elite and Premium segment (60% market share in premium segment in domestic grape wine market). Excise duty as % of gross sales stood at 6%. GM rose ~170 bps yoy to 78.1%, led by a favourable mix. Popular and economy wines' revenue grew ~4.5% yoy. The company is strategically focusing less on this segment due to its higher competitive intensity and discounting, resulting in lower profitability.

**Margin:**

- Gross Margin during the quarter was 73.1%, expanded 120 bps YoY. EBITDA grew 18% YoY to ₹44crs margin expanded 200bps to 33.1% YoY.
- Employee and Other expenses increased 15%/14% YoY respectively, while advertising expenses as a % of sales contracted 130 bps to 10.7% 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 announced the appointment of Abhishek Kapoor as CFO in Q1FY24 and Mr. Karan Vasani (Chief winemaker) assumed the COO position in Oct'23.

**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).

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

- Wine tourism has also shown double-digit growth (24%) and Sula now has over 100 rooms (67 keys in Mar'23) and added three stylish villas and 16 rooms overlooking the picturesque Gangapur Lake in Nashik. Wine tasting

<b>Return (%)</b>	<b>1Yr</b>	<b>3Yr</b>	<b>5Yr</b>
<b>SULA</b>	<b>55</b>	<b>-</b>	<b>-</b>
<b>Nifty 50</b>	7.8	53.5	85.1
<b>Sensex</b>	6.7	49.9	85.9

*Source: Company, Way2Wealth Research*

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sessions ~40%+ YoY growth in total tasting to 96k from 46K in Q1FY24. This will drive further growth in wine tourism business in the coming years. 150,000+ bottles sold via D2C channel up 13% YoY.

### ➤ Guidance:

- The company continues 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.
- For FY24, Sula has outlined a total capex outlay of ₹65crs. The company incurred ~₹85crs in FY23; marking the highest ever two-year capex outlay for Sula. The ongoing capex is for to 1) augment capacity by 350k liters in Domaine Dindori (~3% of total capacity). 2) For setting up solar units for power generation and for a new tasting room. 3) Acquire land near Domaine Sula facility in Karnataka.

### ➤ Regulatory Overhang:

- Management anticipates a positive outcome for the renewal of the WIPS subsidy. The VAT refund to be received stood at ₹12-13crs and the amount received during 1Q stood at ~₹4crs.
- 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. Management expects some positive ruling in Q3.

### ➤ Others:

- New channels such as CSD grew in triple digit in H1FY24.

### 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.

The company posted strong growth in Elite and Premium Segment in Q2FY24 and management is confident of delivering positive results going forward, driven by premiumisation, focusing on own brands and marketing and digitization expansion

We continue to believe in the company's long-term growth prospects. **At its CMP of ₹479/-, the stock trades at ~42.2 its TTM earnings of ₹11.35 and recommend investors to accumulate this stock on corrections.**

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## Quarterly Performance

(₹ Cr)

	Q2FY24	Q2FY23	VAR	Q1FY24	VAR	H1FY24	H1FY23	VAR
<b>Gross Sales</b>	<b>142.83</b>	<b>128</b>	<b>11.6%</b>	<b>116.59</b>	<b>22.5%</b>	<b>259.42</b>	<b>224.34</b>	<b>15.6%</b>
<b>Excise duty on Sales</b>	9.14	7.7	<b>18.7%</b>	8.1		17.24	11.86	<b>45.4%</b>
<b>Net Sales (Net of Excise Duty)</b>	<b>133.69</b>	<b>120.3</b>	<b>11.1%</b>	<b>108.49</b>	<b>23.2%</b>	<b>242.18</b>	<b>212.48</b>	<b>14.0%</b>
Other Income	0.89	0.83	7.2%	1.57	-43.3%	2.46	1.69	45.6%
<b>TOTAL INCOME</b>	<b>134.6</b>	<b>121.1</b>	<b>11.1%</b>	<b>110.1</b>	<b>22.3%</b>	<b>244.6</b>	<b>214.2</b>	<b>14.2%</b>
Total Raw Material Cost	29.2	28.3	3.5%	22.9	27.6%	52.1	48.7	7.1%
Cost of Raw Material & Components Consumed	15.56	12.14	28.2%	10.9	42.8%	26.46	20.6	28.4%
(Increase)/ Decrease in Inventories	10.13	10.35	-2.1%	7.91	28.1%	18.04	16.46	9.6%
Purchase of Traded Goods	3.54	5.76	-38.5%	4.09	-13.4%	7.63	11.62	-34.3%
<i>Total Raw Material Cost % to Sales</i>	<i>21.9%</i>	<i>23.5%</i>		<i>21.1%</i>		<i>21.5%</i>	<i>22.9%</i>	
Employee Cost	21.58	18.79	14.8%	21.28	1.4%	42.86	37.1	15.5%
<i>Employee Cost % to Sales</i>	<i>16.1%</i>	<i>15.6%</i>		<i>19.6%</i>		<i>17.7%</i>	<i>17.5%</i>	
Employee Stock Option Expenses			-		-	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	14.24	14.45	-1.5%	12.76	11.6%	27	24.59	9.8%
<i>Selling &amp; Distribution Expenses % of Sales</i>	<i>10.7%</i>	<i>12.0%</i>		<i>11.8%</i>		<i>11.1%</i>	<i>11.6%</i>	
Other Expenses	24.44	21.45	13.9%	21.2	15.3%	45.64	39.49	15.6%
<i>Other Expenses % of Sales</i>	<i>18.3%</i>	<i>17.8%</i>		<i>19.5%</i>		<i>18.8%</i>	<i>18.6%</i>	
<b>TOTAL EXPENDITURE</b>	<b>89.5</b>	<b>82.9</b>	<b>7.9%</b>	<b>78.1</b>	<b>14.5%</b>	<b>167.6</b>	<b>149.9</b>	<b>11.9%</b>
<b>EBIDTA</b>	<b>44.2</b>	<b>37.4</b>	<b>18.3%</b>	<b>30.4</b>	<b>45.6%</b>	<b>74.6</b>	<b>62.6</b>	<b>19.1%</b>
<i>EBIDTA Margin %</i>	<i>33.1%</i>	<i>31.1%</i>		<i>28.0%</i>		<i>30.8%</i>	<i>29.5%</i>	
Finance Costs	6.52	5.46	19.4%	5.32	22.6%	11.84	10.47	13.1%
<b>PBDT</b>	<b>38.6</b>	<b>32.7</b>	<b>17.8%</b>	<b>26.6</b>	<b>45.0%</b>	<b>65.2</b>	<b>53.8</b>	<b>21.0%</b>
Depreciation, Ammortization & Impairment	7.61	6.35	19.8%	7.56	0.7%	15.17	12.58	20.6%
<b>Profit before Tax</b>	<b>31.0</b>	<b>26.4</b>	<b>17.4%</b>	<b>19.0</b>	<b>62.6%</b>	<b>50.0</b>	<b>41.3</b>	<b>21.2%</b>
Tax	7.87	6.87	14.6%	5.36	46.8%	13.23	10.75	23.1%
<i>Tax Rate %</i>	<i>25.4%</i>	<i>26.0%</i>		<i>28.2%</i>		<i>26.5%</i>	<i>26.1%</i>	
<b>Reported Profit</b>	<b>23.1</b>	<b>19.5</b>	<b>18.3%</b>	<b>13.7</b>	<b>68.8%</b>	<b>36.8</b>	<b>30.5</b>	<b>20.5%</b>
<i>PAT Margin %</i>	<i>17.3%</i>	<i>16.2%</i>		<i>12.6%</i>		<i>15.2%</i>	<i>14.4%</i>	
Other Comprehensive Income (net of tax)	0.0	0.2		-1.4		-1.32	-0.23	
<b>Total Comprehensive Income</b>	<b>23.1</b>	<b>19.7</b>	<b>17.4%</b>	<b>12.3</b>	<b>87.5%</b>	<b>35.5</b>	<b>30.3</b>	<b>17.1%</b>
<b>Basic:</b>								
<b>EPS</b>	<b>2.73</b>	<b>2.31</b>	<b>18.3%</b>	<b>1.62</b>	<b>68.8%</b>	<b>4.35</b>	<b>3.61</b>	<b>20.5%</b>
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 November 17, 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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