

Manan Goyal
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Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	9,603.5
Fresh Issue (No. of Shares in Lakhs)	
Offer for Sale (No. of Shares in Lakhs)	270
Bid/Issue opens on	12-Dec-22
Bid/Issue closes on	14-Dec-22
Face Value	₹ 2
Price Band	340-357
Minimum Lot	42

Objects of the Issue

- **Offer for sale : ₹9,603.5 million**
The company will not receive any proceeds of the Offer for by the selling shareholders.

Book Running Lead Managers	
Kotak Mahindra Capital Company Limited	
CLSA India Private Limited	
IIFL Securities Limited	
Registrar to the Offer	
Kfin Technologies Limited	

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	202.60
Subscribed paid up capital (Pre-Offer)	168.40
Paid up capital (Post - Offer)	168.40

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	28.4	27.3
Public	71.6	72.7
Total	100.0	100.0

Financials

Particulars (₹ In million)	H1 FY23	H1 FY22	FY22	FY21	FY20
Revenue from operations	2241	1592	4539	4180	5216
Operating expenses	1615	1304	3406	3570	4727
EBITDA	626	288	1133	610	489
Other Income	17	13	28	36	16
Depreciation	126	117	236	257	350
EBIT	517	184	925	389	155
Interest	105	127	229	334	329
PBT	412	57	696	55	(174)
Exceptional item	-	-	-	22	-
Tax	107	11	174	2	(15)
Consolidated PAT	305	46	522	31	(159)
EPS	3.62	0.54	6.19	0.36	(1.89)

Company Description

Sula Vineyards limited is India's largest wine producer and seller as of March 31, 2022. They have been a consistent market leader in the Indian wine industry in terms of sales volume and value (on the basis of the total revenue from operations) since Fiscal 2009 crossing 50 per cent market share by value in the domestic 100 per cent grapes wine market in Fiscal 2012. Company has consistently gained market share (on the basis of their total revenue from operations) from 33 per cent in Fiscal 2009 in 100 per cent grapes wine category to 52 per cent in value in Fiscal 2022. Furthermore, they are the market leader across all four price segments, being 'Elite' (INR 950+), 'Premium' (INR 700-950), 'Economy' (INR 400- 700) and 'Popular' (<INR 400), with a higher share of approximately 61 per cent. by value in the 'Elite' and 'Premium' categories in Fiscal 2022, as compared to their overall market share of 52 per cent. in the Indian wine industry. Furthermore, they are also recognized as the market leader across wine variants, including red, white and sparkling wines. Sula Shiraz Cabernet is India's largest selling wine by value in Fiscal 2021. Company's gross billings of Sula Shiraz Cabernet amounted to ₹918.26 million, ₹475.64 million and ₹319.73 million in Fiscal 2022 and for the six months period ended September 30, 2021 and September 30, 2022, respectively.

Their business can be broadly classified under two categories (i) the production of wine, the import of wines and spirits, and the distribution of wines and spirits (the "Wine Business"); and (ii) the sale of services from ownership and operation of wine tourism venues, including vineyard resorts and tasting rooms (the "Wine Tourism 195 Business"). However, since the Wine Tourism Business is incidental and complements the overall Wine Business, the Company's chief operating decision makers (which includes their CEO, CFO, COO and members of the board) monitor and review the operating result of the Group as a single operating segment of manufacture, purchase and sale of alcoholic wines and spirits.

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. Currently, they produce 56 different labels of wine at four owned and two leased production facilities located in the Indian states of Maharashtra and Karnataka. Furthermore, they are among the top ten most followed vineyards in the world, with a large following on social media of approximately 118,000 followers on Instagram, approximately 123,000 likes on Facebook and approximately 14,000 followers on Twitter as on September 30, 2022.

Wine market in India will remain concentrated with high barriers to entry due to the nature of the product in addition to the trade barriers prevalent in the alcoholic beverage market. Company had entered into long-term supply arrangements (of up to 12 years) with grape growers for approximately 2,290 acres as of September 30, 2022.

Valuation

Sula vineyards limited is an established market leader in the Indian wine industry with largest wine producer in India with the widest and innovative product offering supported by an efficient production mechanism largest wine distribution network and sales presence and secured supply of raw material with long term contracts exclusive to Sula and leader and pioneer of the wine tourism business in India.

At upper price band Sula vineyards limited is available at P/E 35.8x and market cap of ₹ 30,058 million post issue of equity shares and return on net worth of 11.45%.

We believe Sula vineyards limited IPO is fairly priced and recommend a "Subscribe- Long Term" rating to the IPO.

Company serviced close to 8,000 hotels, restaurants and caterers, which makes them the leader in terms of footprint among wine players in India, and experienced a significant rise in their Off-trade sales in the last 3 years with their Off-trade sales contributing 72.25 per cent. of their secondary sales during Fiscal 2022, compared to 61.33 per cent. in Fiscal 2020. During the six months period ended September 30, 2022 and September 30, 2021, the contribution from their Off-trade sales was 70.75 per cent. and 72.95 per cent. of their secondary sales, respectively. They have tie-ups with distributors in Maharashtra, Haryana, Delhi, Goa and Punjab. To that end, they have managed to build the largest distribution network among wine companies in India, with close to 13,000 retail touch points across the country in 2021. Company also has a strong direct to consumer ("D2C") selling channel primarily through their Wine Tourism Business facilities in Nasik (Maharashtra) and Bengaluru (Karnataka), with the highest number of D2C sales in the Indian wine industry in Fiscal 2021. Their D2C sales were ₹157.53 million, ₹72.81 million and ₹242.01 million during the six months period ended September 30, 2022 and September 30, 2021, and the Financial Year ended March 31, 2022, respectively. Their products are available over various e-commerce platforms, which is helping them further increase their D2C footprint.

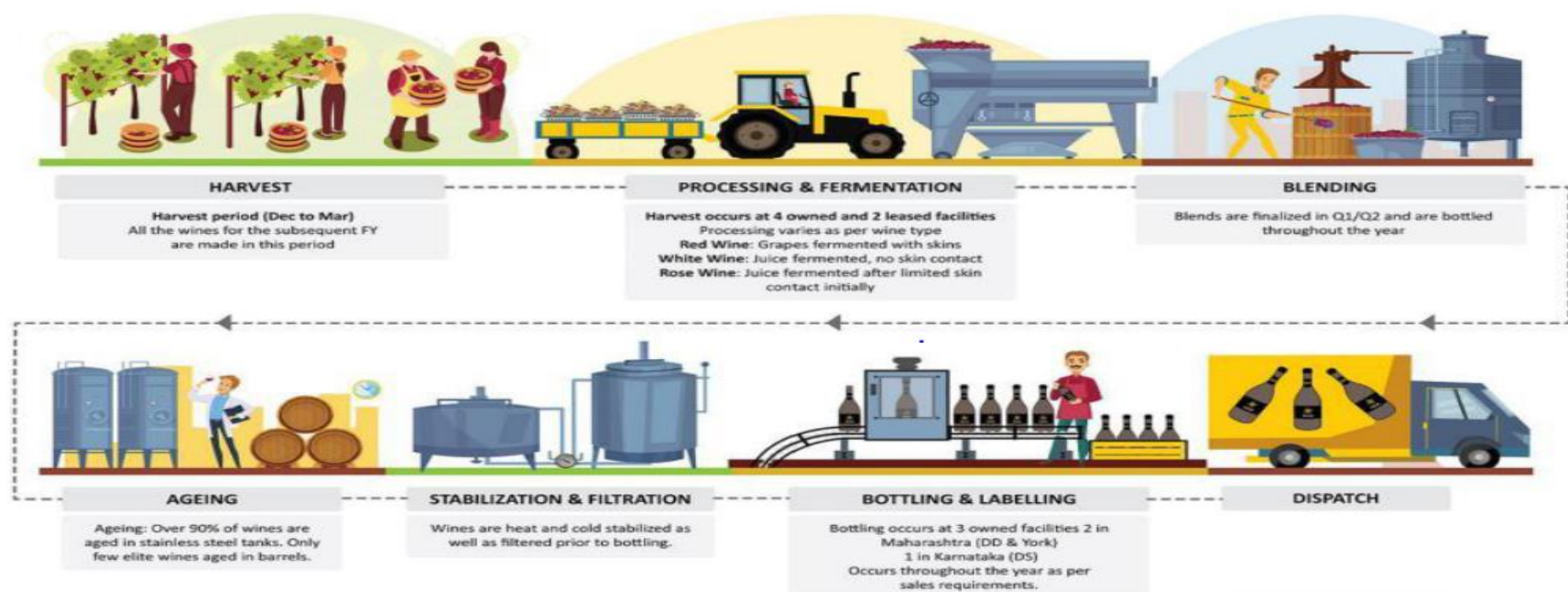
Product Portfolio

Company produce two types of wine:

- **Still wine:** Wine that is neither sparkling nor fortified. Still wine constituted 85.38 per cent. of their total production as of September 30, 2022 with 15 labels under the Elite category, 22 labels each under the Premium and Economy categories and 9 labels under the Popular category; and
- **Sparkling wine:** Wine that contains bubbles from dissolved carbon dioxide. Sparkling wine constituted 14.62 per cent. of their total production as of September 30, 2022 with 6 labels under the Elite category and 2 labels each under Premium and Economy categories.

Production Process

The flowchart below sets out the process for production of their wines:



Production Capacity

The following table sets forth information relating to the aggregate installed production capacities (per annum) of their wineries for the products specified below:

Installed Capacity				
Particulars	Fiscal 2020	Fiscal 2021	Fiscal 2022	Six months ended September 30, 2022
(in lakhs litres)				
Maharashtra				
Nashik Winery	45.39	45.71	46.40	46.40
Domaine Dindori	66.21	66.21	66.21	66.21
Leased Winery 1	9.94	9.94	9.94	9.94
York Winery (ASPL)	-	-	4.84	4.84
Total Maharashtra (A)	121.54	121.86	127.39	127.39
Karnataka				
Domaine Sula (DS)	11.21	11.36	11.39	11.39
Leased Winery 2	6.75	6.62	6.62	6.62
Total Karnataka (B)	17.96	17.98	18.01	18.01
Total (A+B)	139.50	139.84	145.40	145.40

Capacity utilisation

They regularly monitor the performance of their wine manufacturing facilities through a number of performance indicators commonly used in the Indian wine industry. The following table provides information relating to the aggregate estimated capacity utilization rates of their wine manufacturing units for the six months ended September 30, 2022 and the Fiscals ended March 31, 2022, March 31, 2021 and March 31, 2020:

Capacity Utilization				
Particulars	Fiscal 2020	Fiscal 2021	Fiscal 2022	Six months ended September 30, 2022
(in lakhs litres)				
Maharashtra				
Nashik Winery	27.37	28.95	36.79	22.44
Domaine Dindori	45.87	49.23	52.61	36.91
Leased Winery 1	6.92	7.68	8.94	5.74
York Winery (ASPL)	-	-	3.96	3.44
Total Maharashtra (A)	80.16	85.86	102.30	68.53
Karnataka				
Domaine Sula (DS)	7.66	8.14	9.22	8.47
Leased Winery 2	2.93	3.10	3.99	4.83
Total Karnataka (B)	10.59	11.24	13.21	13.30
Total (A+B)	90.75	97.10	115.51	81.83

Capacity Utilization				
Particulars	Fiscal 2020	Fiscal 2021	Fiscal 2022	Six months ended September 30, 2022
(as a % of installed capacity)				
Maharashtra				
Nashik Winery	60%	63%	79%	48%
Domaine Dindori	69%	74%	79%	56%
Leased Winery 1	70%	77%	90%	58%
York Winery (ASPL)	-	-	82%	71%
Total Maharashtra (A)	66%	70%	80%	54%
Karnataka				
Domaine Sula (DS)	68%	72%	81%	74%
Leased Winery 2	43%	47%	60%	73%
Total Karnataka (B)	59%	63%	73%	74%
Total (A+B)	65%	69%	79%	56%

Wine Tourism Business

As part of Wine Tourism Business, they own and operate “The Source at Sula” and “Beyond by Sula” vineyard resorts located adjacent to their facility in Nasik, Maharashtra, having a combined room capacity of 67 rooms. They have increased the number of rooms at their wine tourism facilities from 33 rooms in Fiscal 2018 to 67 rooms as of September 30, 2022. During the six months period ended September 30, 2022 and September 30, 2021, and Fiscals ended March 31, 2022, 2021 and 2020, their resorts recorded an approximate revenue per room of ₹10,195, ₹10,225, ₹10,367, ₹9,044 and ₹8,759, respectively.

The table below sets forth the average occupancy level at their “The Source at Sula” and “Beyond by Sula” facilities for the periods indicated below:

	Six months ended September 30,		Fiscal		
	2022	2021	2022	2021	2020
Average Occupancy at Resorts (%)	77.37%	55.69%	70.97%	43.66%	66.48%
The Source at Sula					
Occupancy %	76.15%	51.94%	68.85%	41.15%	63.79%
Beyond By Sula					
Occupancy %	84.21%	74.81%	82.30%	56.41%	75.55%

Key Operating Parameters of their Wine Tourism Business**Consolidated**

	Six months ended September 30,		Fiscal		
	2022	2021	2022	2021	2020
Average Rooms Occupancy (%)	77.37%	55.69%	70.97%	43.66%	66.48%
Average Room Revenue (ARR) (in ₹)	10,195	10,225	10,367	9,044	8,759
Room Revenue					
(A) Room Revenue (₹ in millions)	95.28	63.57	170.07	87.91	93.30
Room Revenue to Total Income (%)	4.22%	3.96%	3.72%	2.09%	1.73%
Food & Beverage, Merchandise, other Ancillary Services and Wine & Liquor					
(B) Sale of Food & Beverage, merchandise and all other ancillary services (₹ in millions)	102.72	57.31	176.14	93.47	188.37
(C) Sale of Wine and Liquor (₹ in millions)	157.53	72.81	242.01	139.7	189.42
Total Income (A + B + C) (₹ in million)	355.53	193.69	588.22	321.08	471.09

Strengths:➤ **High barriers of entry**

The wine market in India will remain concentrated, with high barriers to entry due to the nature of the product, as well as trade barriers prevalent in the alcoholic beverage market. Some of the key factors are set out below:

- Wine making involves the investment of capital and time for the development of vineyards, an investment in relationships with farmers to ensure supply, as well as expertise in the making of wine.
- The wine business has a high inventory business model compared to other alcoholic beverages, and one of the unique attributes on the supply side is the annual harvesting season, which increases the demanding nature of the wine making business. Unlike other alcoholic beverages, the wine industry has only one raw material production cycle in a year, which is usually from December to March. Wine production starts with the harvesting season in December and continues until April. Wine storage and ageing happens throughout the year. Due to only one harvesting season per year, inventory for the full year is effectively built up in these four months, resulting in high year-end inventory. In addition, demand side factors, including high seasonality skewed towards the festive season from October onwards, increases capital expenditure and working capital requirements for wines companies compared to other alcoholic beverage companies.
- Each state in India establishes its respective alcohol policy, including with respect to procurement, pricing, distribution and any restrictions on its use. This creates a fragmented approach, with distribution strategies differing from region to region. The changing policy environment in relation to alcoholic beverages in the country makes it difficult for alcoholic beverage companies in India to establish standard operating procedures for sale and distribution.
- High import duties, freight and logistics costs – imported wines face high import duties as well as freight and logistic barriers that render them much more expensive relative to locally produced wines
- Climatic conditions – grapes are a temperate crop, and the tropical climatic conditions in India require extensive research and development to produce good quality wines
- Availability of skilled personnel – with no national training institute for winemaking in the country, the number of skilled winemakers is very limited in India.

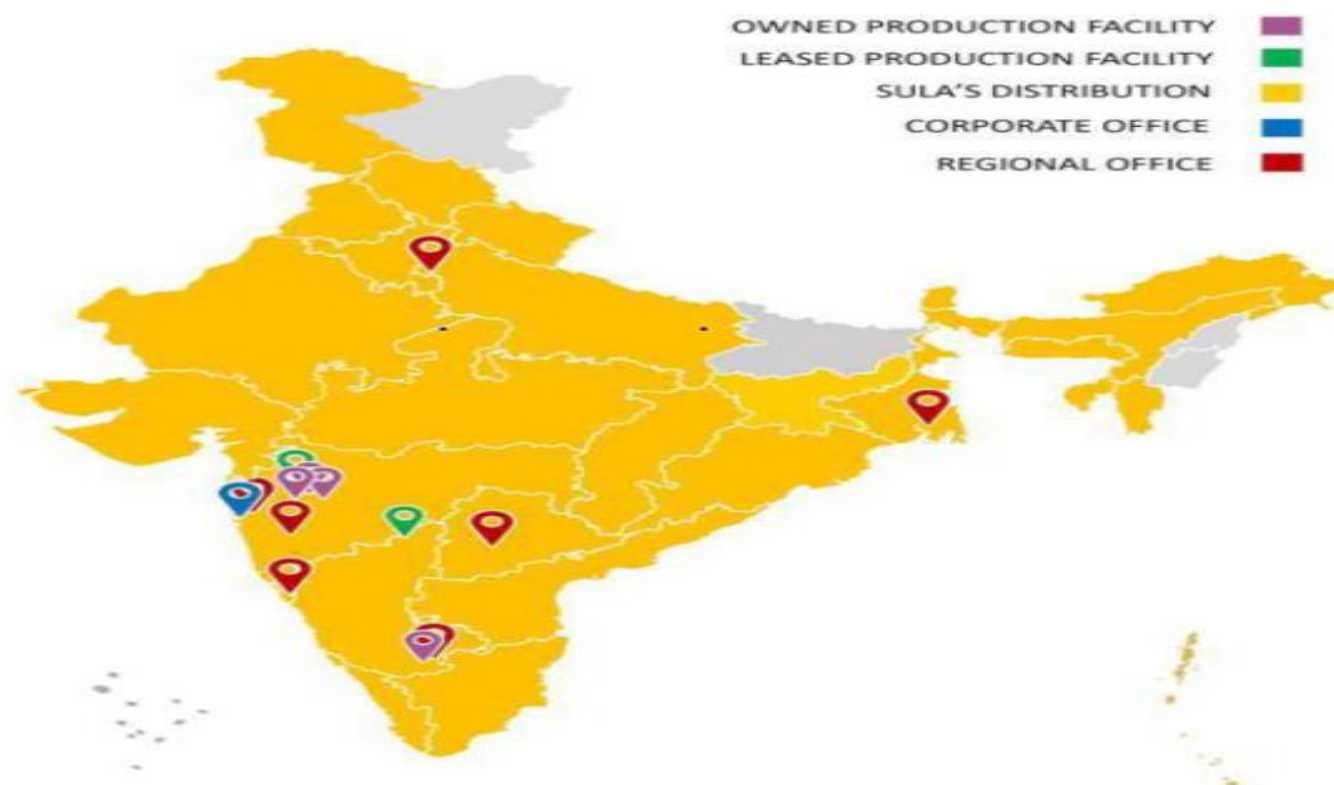
➤ **Established market leader in the Indian wine industry with the leading brand “Sula”**

Since incorporation in 2003, they have built a strong network across key markets, which gives them a competitive advantage over other wine players. The “Sula” brand is recognized as the market leader across wine variants, including red, white and sparkling wines. “Sula” is also recognized as the “category creator” for wines in India. In addition to “Sula”, they own the “RASA”, “The Source”, “Dindori”, “York”, “Satori”, “Mosiatic”, “Madera”, “Samara” and “Dia” brand names, among others, which are strong individual brands with distinct identities. They classify the brands manufactured, bottled and sold by their company as their “Own Brands” (as of the date of this Red Herring Prospectus their own brands include “Sula”, “RASA”, “Dindori”, “York”, “Satori”, “Mosiatic”, “Madera”, “Samara”, “Heritage”, “Port Gold” and “Dia”). They have consistently gained market share (on the basis of their total revenue from operations) from 33 per cent. in Fiscal 2009 in 100 per cent. grapes wine category to 52 per cent. in value in Fiscal 2022 . They are among the top 10 most followed vineyards in the world, having a large following on social media of approximately 118,000 followers on Instagram, approximately 123,000 likes on Facebook and approximately 14,000 followers on Twitter as on September 30, 2022 . They have leveraged their digital and social media presence as an effective tool of communication with their consumers by engaging with social media influencers. They have seen this engagement increase their brand reach to a much wider and newer audience, especially resonating with younger demographics. This has also resulted in them receiving valuable feedback from their consumers directly, which has helped them further enhance their products, service and availability. Their marketing activities are innovative, and in 2008, they pioneered an annual musical festival “Sula Fest”, which involves a two-day celebration of wine, music and food, in Nasik, Maharashtra. “Sula Fest” is widely recognized as the largest wine festival in India, with more than 10,000 people in attendance in 2020, making it one of the largest wine music festivals in Asia as well.

➤ **Largest wine producer in India with the widest and innovative product offering supported by an efficient production mechanism**

Company are the clear market leader in the Indian domestic wine industry, with their market share by value being 52 per cent. in Fiscal 2022. They 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) since Fiscal 2009 crossing 50 per cent. market share by value in the domestic 100 per cent. grapes wine market in Fiscal 2012. The 'Premium' and 'Elite' wine categories contributed approximately 61 per cent. by value and 40 per cent. by volume of the Indian domestic 100 per cent. grape wine market in Fiscal 2020 and are projected to grow at a CAGR of 19.7 per cent. by volume in the period between Fiscal 2022 to Fiscal 2025 as compared to overall category growth of approximately 15.8 per cent. during the same period. Since the launch of their first wines in the year 2000, they have redefined the production and distribution of wine in India being instrumental in laying the bedrock for the growth of the local wine industry in India. Countries which have non-native wine drinkers but have created a strong local wine industry, such as China, have seen a significant growth in the per capita consumption of wine from 170 millilitres in 1980 to cross one litre in the year 200. Company aim to tap the potential of the under penetrated wine industry in India with their offering of the widest product range in the Indian wine market.

The following map sets out their distribution network across their territories as of September 30, 2022:



➤ **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 per cent. of the overall wine market in India. As of June 30, 2022, they had access to approximately 2,521 acres of vineyards, which is significantly higher than the second largest wine company in the Indian market at close to 460 acres. Out of their total acreage, they have entered into long-term supply arrangements (of up to 12 years) with contract farmers for approximately 2,290 acres as of September 30, 2022. Such long-term supply arrangements cover more than 90 per cent. of their annual supply of wine grapes, and they intend to continue expand their wine grape supply via long term contracts with third-party farmers. Over the years, they have been successful in gaining the trust of grape farmers in India resulting in strong long - term relationships. This is evidenced by their long-term supply arrangements (of up to 12 years with an option to renew further with mutual consent) with approximately 500 contract farmers. They guide these farmers, educate them in identifying best farming practices to increase their productivity, and help in increasing their incomes. They have a dedicated outreach team that trains farmers in the latest viticulture practices and closely monitor vineyard activities to ensure quality production. Given their technical knowhow and support, and market leading reputation, farmers prefer entering into and renewing such long-term contracts with them. Furthermore, with their scale of production, they are able to provide a stable income to the contracted farmers working with them to produce quality wine grapes. In general, farmers have higher price realization from wine grapes as compared to table grapes.

➤ **Leader and pioneer of the wine tourism business in India**

Company have been a pioneer of wine tourism in India, which has led to a strong D2C presence. They believe with their combination of resorts, tasting rooms and restaurants, they have helped to create a unique wine culture in India. For example, they launched the first wine tasting room in India in Fiscal 2005 at their facility in Nasik, Maharashtra, and in Fiscal 2017, established another tasting room at their "Domaine Sula" facility in Karnataka, thereby establishing the concept of wine tourism in India. They offer curated experiences, such as wine tasting sessions, winery tours and gourmet dining options at their wineries, enabling them to build a stronger connect with their consumers and popularize wine tourism in the country. They conducted approximately 90,000, 43,000, 85,000 and 59,000 wine tasting sessions during Fiscals 2020, 2021 and 2022 and the six months ended September 30, 2022, respectively. They are the most visited vineyard in India, with approximately 368,000 people visiting their vineyards in Fiscal 2020. However, in Fiscals 2020 and 2021, their facilities remained closed for visitors during the COVID-19 induced lockdowns and restrictions imposed by the Indian government. Since the lifting of the lockdowns, they have reopened their facilities in accordance with the directions issued by the Government. As part of their wine tourism business, they own and/or operate "The Source at Sula" and "Beyond by Sula" vineyard resorts located at and adjacent to their facility in Nasik, Maharashtra, having a combined room capacity of 67 rooms as of September 30, 2022. During Fiscals 2020, 2021 and 2022 and the six months period ended September 30, 2021 and September 30, 2022, their resorts recorded an approximate revenue per

room of ₹8,759, ₹9,044, ₹10,367, ₹10,225 and ₹10,195, respectively. Supplementing their wine tourism business, they have experienced a strong and consistent D2C demand for their wines from visitors at their wine tourism facilities in Nasik, Maharashtra and Bengaluru, Karnataka (primarily focused on their 'Elite' category of wines), with an average sale of approximately 225,000 bottles (units of 1500ml, 750ml, 375ml bottles sold or served to consumers at their outlets in these facilities) each year over the last three Financial Years. They sold approximately 230,000 bottles through their direct to consumer selling channel in Fiscal 2020. Similar to their wine portfolio, they work towards continually expanding their wine tourism business by adding more rooms and introducing new wine experiences for their consumers.

➤ **Early adoption and focus on sustainability**

Sustainability is a key focus area for company and is infused in their business decisions, including the packaging of their products. Clean renewable energy is one main focus of their sustainability efforts, and they are a leader in installing clean renewable energy at their wineries, with over 2MW of installed solar PV capacity providing them more than 60 per cent. of their annual energy needs in Fiscal 2022. They adopted clean energy through setting up solar panels at their Nasik facility in Fiscal 2014. They have formulated and undertaken a "Green Sula" initiative to make their vineyards eco-friendlier as well as more cost-effective. They generated more than 3 million kWh from solar energy at their owned and leased facilities in Maharashtra and Karnataka in Fiscal 2022. They have rainwater harvesting reservoirs at all their facilities with a combined storage capacity of over 36.83 million liters. They have reduced the water usage per case produced by over 11 per cent. in the last three fiscals. Company actively recycle and reuse waste-water and have improved efficiency by using drip irrigation at their wineries. They are a member of the International Wineries for Climate Action ("IWCA"), a working group of wineries dedicated to reducing carbon emissions across the wine industry. IWCA is a part of the 'Race to Zero' global campaign, led by the United Nations and its member wineries are committed to achieving net zero emissions by 2050. They have also commissioned a study on their greenhouse gas emissions (Scope 1, 2 and 3) as the first step to tracking their progress in achieving emissions reductions over time. They have also been publishing an annual sustainability report along with their Fiscal Year end annual report.

Key Strategies:

➤ **Continuous focus on their own brands**

One of their main strategies is to continue focusing on their own brands over third party brands that they import and distribute. They made a clear shift towards focusing on their own brands in Fiscal 2020, which got further accelerated by the COVID-19 pandemic. Sales of their own brands accounted for 85.49 per cent., 82.75 per cent. and 83.91 per cent. of their revenue from operations for the six months period ended September 30, 2022 and September 30, 2021, and Fiscal 2022, respectively, as compared to 63.57 per cent. in Fiscal 2020, when they had a significant third party brand distribution business, contributing 30.96 per cent. of its revenue from operations during the same period.

➤ **Focus on premiumization of their product portfolio**

Company currently produce and market a total of 34 labels under the 'Elite' and 'Premium' categories, providing the largest offering in the Indian wine market under these segments. Their share in the 'Elite' and 'Premium' categories increased at 62 per cent. by value in Fiscal 2022. They intend to continue to leverage their distribution capability to launch new products under these categories to further increase their revenue and market share in the Indian wine market. To this end, they launched "The Source" brand with four labels in Fiscal 2018, 2019, 2020 and 2022, and undertook a rebranding of their "RASA" brand in Fiscal 2022. They launched a total of seven labels under their brands, Sula, The Source, RASA and Dindori, in the last five Financial Years, which have all been in the 'Elite' category and together were able to acquire a market share of 9 per cent. in the 'Elite' category by the end of Fiscal 2021.

Below is a snapshot of some of their best-selling labels under the 'Elite' and 'Premium' brands:



Our "Dindori" range of wines



Our "Sula" range of wines



➤ **Increasing wine awareness and consumption, and penetrating further into Tier-1 and 2 cities in India**

The majority of wine consumers are from the top urban centers in India, with Mumbai, Bengaluru (Karnataka), Delhi NCR, Pune, and Hyderabad contributing more than 70 per cent. of the overall market. Their strategy is to increase their focus on the under penetrated markets in major Metros like Chennai and Kolkata, the tourist markets of Kerala, Rajasthan and Goa, and other Tier-1 and 2 cities across India. They focus on introducing wines from their 'Elite' and 'Premium' range when entering new markets, further driving the shift towards their strategy of premiumization. Additionally, with 'Dia', they seek to achieve greater market penetration due to increased accessibility of aluminum cans, being single serve offerings at a lower average selling price. Their distribution network enables them to increase the availability and visibility of their brands. They seek to continue to focus on increasing sales volumes in their geographies by expanding their distribution network, optimizing their distribution operations and increasing product supply to the under-penetrated markets mentioned above. They have built a large distributor network catering to over 50 distributors, 11 corporations, 14 licensed resellers, 7 company depots and 3 defence units as of September 30, 2022, and over 23,000 points of sale (including more than 13,500 retail touch points and over 9,000 hotels, restaurants and caterers) as of March 31, 2022. They intend to further expand their distribution platform by engaging additional distributors, consolidating existing distributors and increasing the number of distributors in these under-penetrated markets. These measures will enable them to increase the availability of their products which will in turn increase brand awareness and revenue.

➤ **Effectively use digital media to increase awareness of wine in India**

Digital marketing and social media platforms are instrumental in their outlook to increase awareness of their brand and wine in general in India. Their initiatives included a combination of social media lifestyle and wine influencer activities, through which "influencers" with a significant following conduct promotional activities for their wine tourism business through their company's or their own social media channels including, Facebook, Instagram, LinkedIn and YouTube, among others. Their strategy of engaging popular influencers with significant followings on social media platforms such as Instagram helps them leverage their extensive network to amplify their message, taking awareness of wine to a wider audience. Sula vineyards is among the top 10 most followed vineyards in the world, and has a large following on social media with approximately 118,000 followers on Instagram, approximately 123,000 likes on Facebook and approximately 14,000 followers on Twitter as on September 30, 2022 . Such initiatives are expected to result in generating greater brand awareness, and an increase in wine penetration in India.

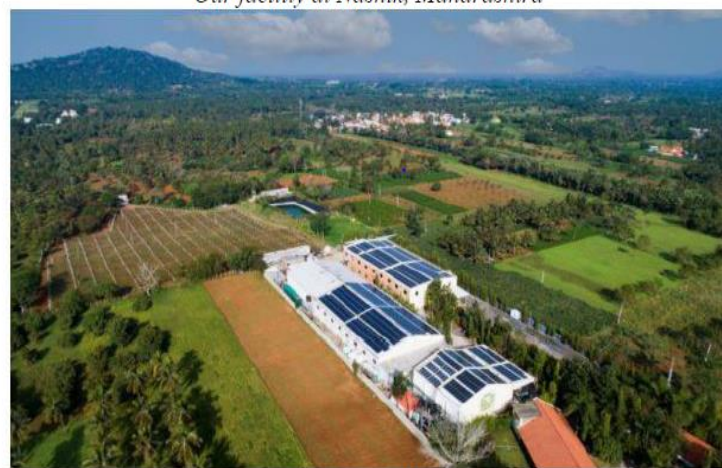
➤ **Continue to make sustainability and climate change readiness the heart of their long term strategy**

Company is one of most sustainable wine businesses in the world with more than 2MW of installed solar PV capacity providing them with over 60 per cent. of their annual energy needs in Fiscal 2022. Furthermore, with systems in place ensuring recycling and reuse of winery waste water, they are one of the sustainable wine companies in India. Company firmly believe that for a business to be successful it needs to be run sustainably. They have achieved sustainability targets in the past such as reduction in consumption of water and energy per case produced, and intend to continue to attain more such milestones in the future.

Below is a snapshot of their current installed solar capacity and rainwater harvesting reservoirs:



Our facility at Nashik, Maharashtra



Our "Domaine Sula" facility in Karnataka

➤ **Pursue strategic investments and acquisitions to further consolidate the Indian wine industry**

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. They are continuously seeking potential synergies through M&A. Through these acquisitions, they seek to consolidate their position further in the Indian wine market, increasing their scale and market share. Their acquisitions of the brands and assets of Heritage Winery ("Heritage") and York Winery in Fiscals 2017 and 2022, respectively, are testament to this. In particular, the acquisition of Heritage was strategic, providing them with their first owned manufacturing facility in Karnataka, allowing them to avail the benefit of significantly lower duties on the sale of their wines in Karnataka and also offering growth potential to increase their wine tourism business.

They intend to continue to actively pursue strategic investments and acquisitions which are complementary to their business. Such efforts will be focused on: (a) increasing their market share further; (b) deepening their presence in certain geographies; and (c) improving profitability.

➤ **Continue to expand their Wine Tourism Business**

Company's wine tourism business goes hand in hand with their wine business and is an important factor contributing to its growth. They launched and first held "Sula Fest" in 2008, which involved a two-day celebration of wine, music and food in Nasik, Maharashtra. Their "Sula Fest" festival is widely sought after, with more than 10,000 people attended the festival in 2020. A lot of "first-time" wine tasting is done in vineyards, thus establishing the importance of wine tourism. They have increased the number of rooms at their wine tourism business facilities from 33 rooms as of March 31, 2018, to 67 rooms as of September 30, 2022 and plan on adding additional rooms in the next few years. Furthermore, their wine tourism business is also characterized by the highest D2C sales and profitability in the Indian wine industry. They intend to continue to expand their wine tourism business, to build on their brand, experience and expertise in this business. They have also developed a pan-India wine tasting program with regular wine tasting sessions held across cities (including at the tasting rooms at their winery in Nasik, Maharashtra and Bengaluru, Karnataka) for their consumers, as well as for training the staff employed by hotels, restaurants and cafés that sell their wines.

Below are a few snapshots of their wine tourism facilities:



"The Source at Sula" facility in Nashik, Maharashtra

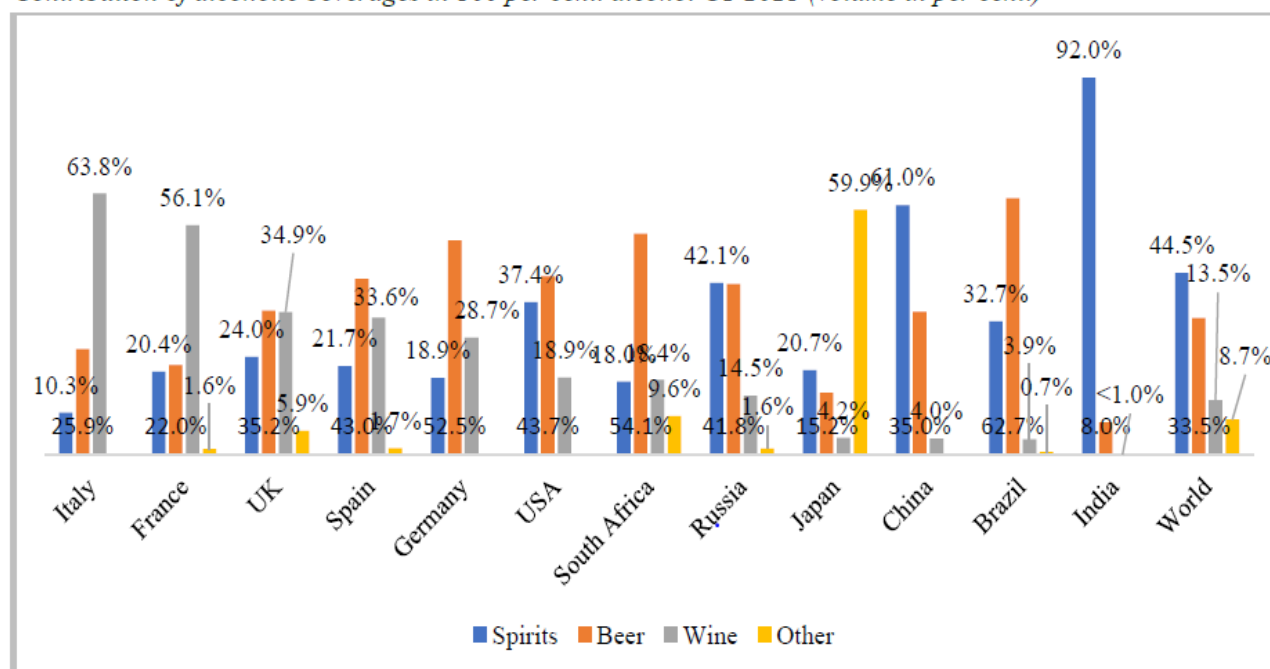


The wine tasting room at our facility in Nashik, Maharashtra

Industry Snapshot:**Wine Consumption in India has the potential to grow multiple times**

India's per capita consumption for wine is less than 100 ml. The contribution of wine to overall alcohol consumption in India is less than 1 per cent. against the world average of close to 13 per cent.. Consumption of wine is higher in developed countries which is as high as close to 30 per cent. in Europe. A comparison between India and China shows that in China, even though the contribution of wine to overall alcohol consumption is close to only 3 per cent., China's per capita consumption of wine is more than 50 times that of India's. Growth of per capita consumption of wine in China has a strong co-relation with the economic growth of the country. In China, the per capita consumption of wine grew from 170 ml in 1980 to cross one litre in the year 2000 with an annual growth of more than 10 per cent., as per capita income grew from close to USD 195 to USD 960 in the same period. India with the per capita income of close to USD 2100 in the calendar year 2019, has crossed the per capita income threshold as benchmarked to growth of wine consumption in China, which augurs well for growth in wine consumption in India. The current per capita consumption of wine in India at close to twenty-five milli liters is the lowest among top economies in the world but is one of the fastest growing countries in the world. A very low base underpinned by economic growth, positive demographic dividend and increasing acceptance of low alcohol content alco-beverages is set to drive Indian wine market to a prolonged period of strong growth. Indian wine market has the potential to grow in multiples leveraging growth opportunities.

Contribution of alcoholic beverages in 100 per cent. alcohol CY 2021 (volume in per cent.)



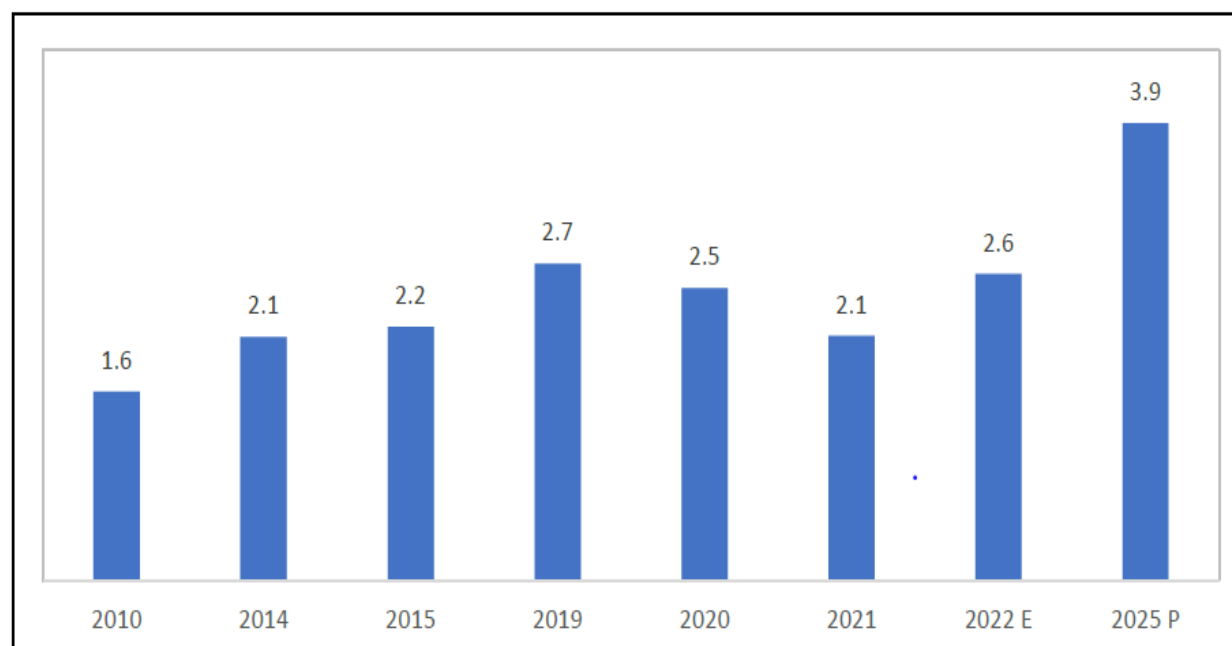
Per Capita alco-beverage consumption as per alcohol concentration CY 2021 (in Liters)

Location	Spirits	Beer	Wine	Other	All types
Germany	4.97	110.53	25.19	-	140.68
Japan	4.55	26.77	3.07	105.13	139.52
Spain	5.78	91.60	29.78	3.67	130.83
UK	5.94	69.94	28.88	11.75	116.51
France	5.75	49.64	52.79	3.52	111.70
South Africa	3.27	78.62	11.13	13.97	106.99
USA	8.39	78.45	14.18	-	101.02
Italy	2.00	39.96	41.08	-	83.03
Brazil	4.91	75.30	1.93	0.85	82.99
Russia	7.01	55.71	8.05	2.14	72.91
China	7.11	32.66	1.56	0.85	42.19
India	6.93	4.79	0.04	-	11.75
World	5.39	32.48	5.45	8.45	51.77

Wines are getting popular as availability of wine improves with rising preference of premium food and drink experiences, and increasing perception of low alcoholic beverages being relatively healthier.

Indian wines industry is growing at much quicker pace at 18.3 per cent. by value between FY 2014 to FY 2019 than the IMFL market growing at 12.3 per cent. by value for the same period. There is growing awareness towards perceived health benefits of wine which makes it more acceptable as compared to spirits. The supply of domestic wines that are reasonably priced and easily available as compared to the imported wines has also helped expand the market as leaders in domestic market have invested in the complete value chain of wines and wine making. Growth in income, increasing urbanisation, high share of young population as well as increasing preference for wines among women driving consumption of wines. As of CY 2021, the share of wine as a form of alcohol consumption in India is very low at less than 1 per cent., whereas contribution of wines to alcohol consumption is close to 13.5 per cent. in the world in terms of 100 per cent. pure alcohol in CY 2021. Its contribution is as high as close to 50 per cent. in select European countries.

Indian wine market in million cases (Data for FY)

➤ **Accounting ratios**

Particulars	Year ended March 31,			Six months ended	
	2020	2021	2022	September 30, 2021	September 30, 2022
(in ₹ million, except as otherwise specified)					
Gross Margin	2,491.51	2,238.38	2,963.64	1,036.24	1,577.75
Gross Margin (%)	47.76%	53.32%	65.29%	65.11%	70.41%
EBITDAE	504.93	645.12	1160.71	300.55	643.06
EBITDAE Margin (%)	9.68%	15.44%	25.57%	18.88%	28.70%
Net Asset turnover	1.73	1.37	1.15	-	-
Cash Conversion Cycle (days)	237	317	347	-	-
Days Sales Outstanding (days)	115	125	98	-	-
Days Inventory Outstanding (days)	252	358	449	-	-
Days Payable Outstanding (days)	130	166	200	-	-
ROCE – reported (%)	4.09%	10.67%	20.86%	-	-
Net Working Capital Days (days)	26	48	65	-	-
Debt to Equity Ratio (times)	1.23	0.99	0.58	0.76	0.48
Debt to EBITDAE Ratio (times)	7.29	4.67	1.97	-	-
Net profit/ (loss) for the year (PAT)	(159.4)	30.14	521.39	45.31	305.06
PAT Margin (%)	(3.06%)	0.72%	11.49%	2.85%	13.61%

Comparison with listed entities:

Name of the company	Revenue from operations (₹ in million)	Face value (₹)	P/E	EPS (Basic and Diluted) (₹)	Return on net worth (%)	NAV per share (₹)
Sula Vineyards Limited	4539.16	2.00	35.88*	9.95**	11.45	55.34
Peer Group						
United Spirits Limited	310618.00	2.00	76.14	11.68	16.63	67.09
Radico Khaitan Limited	124705.02	2.00	53.36	19.70	13.18	149.46
United breweries limited	1,31,239.20	1.00	119.83	13.82	9.29	148.99

Note: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on November 25, 2022.

2) */** P/E and EPS of Sula vineyards limited is calculated on basis TTM and post issue no. of equity shares issued.

Key Risk:

- Company 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 their wine business.
- Adverse climatic conditions may impact the quality of wine grapes which are their key raw materials.
- They may not be able to adjust the retail prices of their products as a result of state regulation.
- Consumers' taste and preference may change and they may not prefer wine in the future. Failure to adapt their product offerings to changing market trends and consumer tastes, preferences and spending habits could cause their sales to decline, and they may not be able to maintain their competitive position in the alcohol beverage and wine industries.

- Company rely heavily on their brand portfolio and the success of their business strategy depends on ability to enhance their brands.
- Their revenue from operations is dependent upon a limited number of customers (which includes state run corporations, wholesalers and independent distributors). Any adverse developments or inability to enter into or maintain such relationships could have an adverse effect on business, results of operations and financial condition. Furthermore, they compete for shelf space in retail stores and for marketing focus by their distributors, most of whom carry extensive product portfolios.
- They reported a restated loss in past fiscals and may incur additional losses in the future
- The Indian wine market is relatively young, facing imminent challenges as consumption of alcohol and spirits in particular, is highly prominent compared to wine consumption in India.
- Their processing units, raw materials and business operations are primarily concentrated in western and south-western parts of India, and any significant social, political, economic or seasonal disruption, or natural calamities or civil disruptions in these regions could have an adverse effect on business, results of operations, future cash flows and financial condition.
- Advertising of alcoholic beverage products is restricted in India and they are unable to advertise their products by traditional.

Valuation:

Sula vineyards limited is an established market leader in the Indian wine industry with largest wine producer in India with the widest and innovative product offering supported by an efficient production mechanism largest wine distribution network and sales presence and secured supply of raw material with long term contracts exclusive to Sula and leader and pioneer of the wine tourism business in India.

At upper price band Sula vineyards limited is available at P/E 35.8x and market cap of ₹ 30,058 million post issue of equity shares and return on net worth of 11.45%.

We believe Sula vineyards limited IPO is fairly priced and recommend a “**Subscribe- Long Term**” rating to the IPO.

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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