

# IPO Note

December 09, 2022

## Sula Vineyards Limited





## Issue Snapshot:

Issue Open: Dec 12 – Dec 14, 2022

Price Band: Rs. 340 – 357

\*Issue Size: 26,900,530 eq sh (Entirely Offer for sale)

Reservation for:

QIB upto 50% eq sh  
Non-Institutional atleast 15% eq sh  
((including 1/3<sup>rd</sup> for applications between Rs.2 lakhs to Rs.10 lakhs))  
Retail atleast 35% eq sh

Face Value: Rs 2

Book value: Rs 58.40 (September 30, 2022)

Bid size: - 42 equity shares and in multiples thereof

100% Book built Issue

## Capital Structure:

Pre Issue Equity: Rs. 16.84 cr  
\*Post issue Equity: Rs. 16.84 cr

Listing: BSE & NSE

Book Running Lead Managers: Kotak Mahindra Capital Company Limited, CLSA India Private Limited, IIFL Securities Limited

Sponsor Bank: Axis Bank Ltd and Kotak Mahindra Bank Ltd

Registrar to issue: KFin Technologies Limited

## Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	28.44	27.33
Public & Employee	71.56	72.67
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\*=assuming issue subscribed at higher band  
Source for this Note: RHP

## Background & Operations:

Sula Vineyards Limited (SVL) is India's largest wine producer and seller as of March 31, 2022. It has 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. It has consistently gained market share (on the basis of its 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, it is 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 overall market share of 52 per cent in the Indian wine industry. Furthermore, it is also recognized as the market leader across wine variants, including red, white and sparkling wines.

SVL's 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. Business"). It distributes 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, it produces 56 different labels of wine at four owned and two leased production facilities located in the Indian states of Maharashtra and Karnataka. Furthermore, SVL is 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.

SVL serviced close to 8,000 hotels, restaurants and caterers, which makes the leader in terms of footprint among wine players in India Report), and experienced a significant rise in Off-trade sales in the last 3 years with its Off-trade sales contributing 72.25 per cent. of secondary sales during Fiscal 2022, compared to 61.33 per cent. in Fiscal 2020. During the six-month period ended September 30, 2022 and September 30, 2021, the contribution from Off-trade sales was 70.75 per cent. and 72.95 per cent. of its secondary sales, respectively. SVL has tie-ups with distributors in Maharashtra, Haryana, Delhi, Goa and Punjab. To that end, it has managed to build the largest distribution network among wine companies in India, with close to 13,000 retail touchpoints across the country in 2021. The Company also has a strong direct to consumer ("D2C") selling channel primarily through its Wine Tourism Business facilities in Nashik (Maharashtra) and Bengaluru (Karnataka), with the highest number of D2C sales in the Indian wine industry in Fiscal 2021. 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.

SVL 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. The Company is the most visited vineyard in India, with approximately 368,000 people visiting vineyards in Fiscal 2020. It launched the first wine-themed music festival in India, "SulaFest", at its Nashik facility in 2008. "SulaFest" has been widely recognized as the largest wine music festival in India and one of the largest wine music festivals in Asia, based on attendance.

### Objects of Issue:

The objects of the Offer are to (i) to carry out the Offer for Sale of up to 26,900,530 Equity Shares by the Selling Shareholders; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges. The Company will not receive any proceeds from the Offer and all such proceeds (net of any Offer related expenses to be borne by the Selling Shareholders) will go to the Selling Shareholders. Further, SVL expects that listing of the Equity Shares will enhance its visibility and brand image and provide liquidity to its Shareholders and will also provide a public market for the Equity Shares in India.

### Competitive Strengths

**Established market leader in the Indian wine industry with the leading brand “Sula”:** Since SVL’s incorporation in 2003, it has built a strong network across key markets, which gives it 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”, it owns the “RASA”, “The Source”, “Dindori”, “York”, “Satori”, “Mosiatic”, “Madera”, “Samara” and “Dia” brand names, among others, which are strong individual brands with distinct identities. It classifies the brands manufactured, bottled and sold by its Company as its “Own Brands”. It has consistently gained market share (on the basis of 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. It is 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. It has leveraged its digital and social media presence as an effective tool of communication with its consumers by engaging with social media influencers.

**Largest wine producer in India with the widest and innovative product offering supported by an efficient production mechanism:** SVL is the clear market leader in the Indian domestic wine industry, with its market share by value being 52 per cent. in Fiscal 2022. It has 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.

SVL was the first to introduce varietal wines in India in 2003, with its Sauvignon Blanc, Chenin Blanc, Zinfandel, Riesling, Red Sparkling and dessert wine offerings, and were also the first to adopt the use of refrigerated stainlesssteel tanks for the production of its wines, which revolutionized tropical winemaking. Its product portfolio of 56 domestic wines labels and 21 imported alcoholic beverage labels comprising wines and spirits, serves a large cross-section of customers (by type, income and demography), providing them the widest range of choices at price points between ₹250 to ₹1,895 per 750 ml bottle in Maharashtra for its Own Brands. SVL has been the market leader in terms of range of labels across price segments with more than 50 wine Labels. As of September 30, 2022, it had a total of 56 domestic wine labels. Its Shiraz Cabernet has been the top selling wine in the domestic 100 per cent. grape wine market since 2016; Sula Shiraz Cabernet, Sula Chenin Blanc, Sula Zinfandel Rosé and Sula Brut are India’s best-selling red, white, rosé and sparkling, respectively, for Fiscal 2021. The Company introduced red-sparkling wine in India and has also been the pioneer in introducing canned wine in 2020 under its brand ‘Dia’. Canned wine in India has the potential to build a new wine on the go segment.

**Largest wine distribution network and sales presence:** As of September 30, 2022, SVL has a presence in 25 states and six union territories in India. It also entered the overseas markets in 2003, and currently offers its wines in over 20 countries, including Spain, France, Japan, the United Kingdom and the United States. Its widespread sales and distribution platform enables its products to reach consumers ensuring consistent availability. With access to more than 23,000 points of sale (including over 13,500 retail touchpoints and over 9,000 hotels, restaurants and caterers) as of March 31, 2022, its products have a high visibility and availability across the country. Its products are available through its distributors, at various points of sale such as general trade (which includes traditional retail points, such as licensed alcohol and wine shops through distributors and stockists), hotels, restaurants, cafes and modern trade channels which includes ecommerce platforms and select supermarkets across India.

SVL’s distribution platform included over 50 distributors, 11 corporations, 14 licensed resellers, 7 company depots, 3 defence units as of September 30, 2022, over 23,000 points of sale (including over 13,500 retail touchpoints and over 9,000 hotels, restaurants and caterers) as of March 31, 2022. As of September 30, 2022 it had a sales force of 141 permanent employees. It has over the years successfully built and managed its large distribution network, developing strong relationships with its distribution and retail partners across its territories.

SVL also has a strong direct to consumer selling channel at its wine tourism facilities in Nashik (Maharashtra) and Bengaluru (Karnataka) with an average sale of approximately 225,000 bottles (units of 1500ml, 750ml, 375ml bottles sold or served to consumers at its outlets

in these facilities) each year over the last three Financial Years. It sold approximately 230,000 bottles (units of 1500ml, 750ml, 375ml bottles sold or served to consumers at its outlets in these facilities) through direct to consumer selling channel in Fiscal 2020.

**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, SVL 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 its total acreage, it has 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 its annual supply of wine grapes, and it intends to continue expand its wine grape supply via long term contracts with third-party farmers.

Over the years, SVL has been successful in gaining the trust of grape farmers in India resulting in strong long - term relationships. This is evidenced by its long-term supply arrangements (of up to 12 years with an option to renew further with mutual consent) with approximately 500 contract farmers. It guides these farmers, educate them in identifying best farming practises to increase their productivity, and help in increasing their incomes. It has a dedicated outreach team that trains farmers in the latest viticulture practices and closely monitor vineyard activities to ensure quality production. Furthermore, with its scale of production, it is 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:** SVL has been a pioneer of wine tourism in India, which has led to a strong D2C presence. Its combination of resorts, tasting rooms and restaurants, it has helped to create a unique wine culture in India. It offers curated experiences, such as wine tasting sessions, winery tours and gourmet dining options at its wineries, enabling to build a stronger connect with consumers and popularise wine tourism in the country. SVL is the most visited vineyard in India, with approximately 368,000 people visiting vineyards in Fiscal 2020. However, in Fiscals 2020 and 2021, its facilities remained closed for visitors during the COVID-19 induced lockdowns and restrictions imposed by the Indian government. Since the lifting of the lockdowns, it has reopened its facilities in accordance with the directions issued by the Government. As part of Wine Tourism Business, SVL owns and/or operates “The Source at Sula” and “Beyond by Sula” vineyard resorts located at and adjacent to its facility in Nashik, Maharashtra, having a combined room capacity of 67 rooms as of September 30, 2022.

Supplementing its Wine Tourism Business, SVL has experienced a strong and consistent D2C demand for its wines from visitors at its wine tourism facilities in Nashik, Maharashtra and Bengaluru, Karnataka (primarily focused on its ‘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 its outlets in these facilities) each year over the last three Financial Years. Similar to wine portfolio, SVL work towards continually expanding its Wine Tourism Business by adding more rooms and introducing new wine experiences for its consumers.

**Early adoption and focus on sustainability:** Sustainability is a key focus area for SVL and is infused in its business decisions, including the packaging of its products. Clean renewable energy is one main focus of its sustainability efforts, and it is a leader in installing clean renewable energy at its wineries, with over 2MW of installed solar PV capacity providing it more than 60 per cent. of its annual energy needs in Fiscal 2022. SVL has formulated and undertaken a “Green Sula” initiative to make its vineyards eco-friendlier as well as more cost-effective. It generated more than 3 million KWH from solar energy at its owned and leased facilities in Maharashtra and Karnataka in Fiscal 2022. It has rainwater harvesting reservoirs at all its facilities with a combined storage capacity of over 36.83 million liters. It has reduced the water usage per case produced by over 11 per cent. in the last three fiscals. It actively recycles and reuse waste-water and has improved efficiency by using drip irrigation at its wineries.

SVL has been successful in building a responsible supply chain, sourcing raw materials locally, and optimizing packaging materials using lightweight bottles. It managed to reduce the weight of its champagne, burgundy, hock and bordeaux shaped bottles by 28.14 per cent., 22.64 per cent., 13.33 per cent. and 9.28 per cent., respectively over Fiscals 2020, 2021 and 2022 by working with local vendors to develop lighter weighing bottles. It has been sourcing more than 96 per cent. of its packaging material locally since Fiscal 2020, in line with the ‘Make in India’ initiative of the Indian Government. Its sourcing strategy and strong relationships ensure consistent quality, competitive pricing and assured quantity in line with the growing demand of its products. It has a strong viticulture team which works closely with grape growers to assure quality and quantity as per its needs.

**Experienced Board, qualified senior management team:** SVL is led by its Promoter and Managing Director, Rajeev Samant, who established the business in 2003 and has extensive experience in the Indian wine industry. He is ably supported by its strong and experienced management team. Its qualified and experienced Board of Directors and senior management team comprises professionals with extensive knowledge, understanding and experience in the alcoholic beverage industry globally. The knowledge and experience of its senior management team provides it with a significant competitive advantage as SVL seeks to grow its businesses. It prides itself in

providing a strong and supportive work environment and were certified as a “Great Place to Work” by Great Place to Work Institute, India in 2021. Being an equal opportunity employer, it ensures diversity and inclusivity at its workplaces, and has been instrumental in the upliftment of local communities and villages by providing them employment opportunities at its wineries.

#### Business Strategy:

**Continuous focus on Own Brands:** One of SVL main strategies is to continue focusing on its Own Brands over Third Party Brands that SVL import and distribute. It made a clear shift towards focussing on its Own Brands in Fiscal 2020, which got further accelerated by the COVID-19 pandemic. Sales of its Own Brands accounted for 85.49 per cent., 82.75 per cent. and 83.91 per cent. of its 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 it 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 product portfolio:** SVL 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. Its share in the ‘Elite’ and ‘Premium’ categories increased at 62 per cent. by value in Fiscal 2022. It intends to continue to leverage its distribution capability to launch new products under these categories to further increase its revenue and market share in the Indian wine market. Additionally, it also imports and distribute 21 international labels (18 wine labels, two vodka labels and one brandy label) (collectively the “Third Party Brands”), which are priced in line with ‘Elite’ category. A key driver of its consumer strategy is catering to different target consumers across various price points and enabling them to upgrade to higher value products. As demand for wines in urban and semi-urban areas of India is already on the rise, top wine companies in India led by SVL with its extensive experience, tailored specific capabilities across product development, marketing, technology, supply chain, fulfilment, and consumer service, sought to create a differentiated ecosystem for consumers.

**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 centres in India, with Mumbai, Bengaluru (Karnataka), Delhi NCR, Pune, and Hyderabad contributing more than 70 per cent. of the overall market. SVL’s strategy is to increase its 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. It focuses on introducing wines from its ‘Elite’ and ‘Premium’ range when entering new markets, further driving the shift towards its strategy of premiumization. Additionally, with ‘Dia’, it seeks to achieve greater market penetration due to increased accessibility of aluminium cans, being single serve offerings at a lower average selling price. its distribution network enables it to increase the availability and visibility of its brands. SVL seeks to continue to focus on increasing sales volumes in its geographies by expanding its distribution network, optimizing distribution operations and increasing product supply to the under-penetrated markets mentioned above. It intends to further expand its distribution platform by engaging additional distributors, consolidating existing distributors and increasing the number of distributors in these under-penetrated markets. These measures will enable SVL to increase the availability of its 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 SVL’s outlook to increase awareness of its brand and wine in general in India. Its initiatives included a combination of social media lifestyle and wine influencer activities, through which “influencers” with a significant following conduct promotional activities for its Wine Tourism Business through the Company’s or their own social media channels including, Facebook, Instagram, LinkedIn and Youtube, among others. Its strategy of engaging popular influencers with significant followings on social media platforms such as Instagram helps SVL leverage their extensive network to amplify its 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 long term strategy:** SVL is one of most sustainable wine businesses in the world with more than 2MW of installed solar PV capacity providing it with over 60 per cent. of its annual energy needs in Fiscal 2022. Furthermore, with systems in place ensuring recycling and reuse of winery waste water, it is one of the sustainable wine companies in India. For a business to be successful it needs to be run sustainably. SVL has achieved sustainability targets in the past such as reduction in consumption of water and energy per case produced, and intends to continue to attain more such milestones in the future. Its focus is to be resilient to climate change and global warming while being committed to producing India’s finest wines using sustainable methods. Furthermore, its entire vineyard acreage is drip irrigated, and it practice rainwater harvesting, wastewater recycling and sustainable farming practices at its vineyards.



**Pursue strategic investments and acquisitions to further consolidate the Indian wine industry:** SVL has 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. It is continuously seeking potential synergies through M&A. Through these acquisitions, it seeks to consolidate its position further in the Indian wine market, increasing its scale and market share. SVL intends to continue to actively pursue strategic investments and acquisitions which are complementary to its business. Such efforts will be focused on: (a) increasing market share further; (b) deepening presence in certain geographies; and (c) improving profitability.

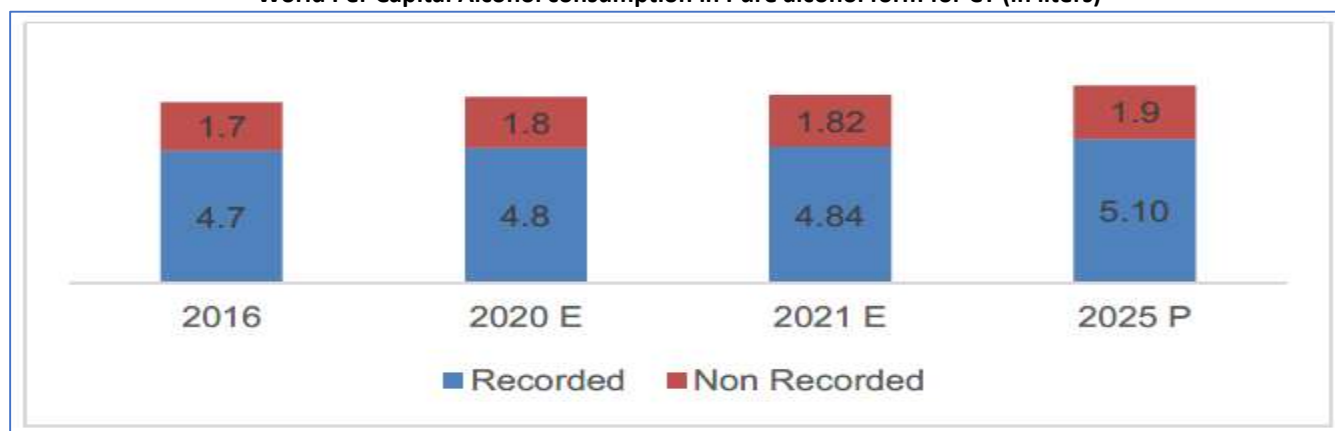
**Continue to expand Wine Tourism Business:** SVL's Wine Tourism Business goes hand in hand with its Wine Business and is an important factor contributing to its growth. It has increased the number of rooms at its Wine Tourism Business facilities from 33 rooms as of March 31, 2018, to 67 rooms as of September 30, 2022 and plans on adding additional rooms in the next few years. Furthermore, its Wine Tourism Business is also characterized by the highest D2C sales and profitability in the Indian wine industry. It intends to continue to expand its Wine Tourism Business, to build on its brand, experience and expertise in this business. Wine tourism has been one of the key factors leading to the success of premium wine consumption in the global wine industry, with the Napa Valley in the state of California being the most widely recognized example. SVL has been the pioneers of wine tourism in India and intends to continue on this growth trajectory with revenues from its Wine Tourism Business increasing to ₹346.21 million in Fiscal 2022 from ₹281.67 million in Fiscal 2020. It has also developed a Pan-India wine tasting program with regular wine tasting sessions held across cities (including at the tasting rooms at its winery in Nashik, Maharashtra and Bengaluru, Karnataka) for its consumers, as well as for training the staff employed by hotels, restaurants and cafés that sell its wines.

## Industry:

### Global Consumption Trends in Alco-beverages

Alcohol consumption is captured by WHO as total alcohol per capita consumption in litres of pure alcohol per person per year and alcohol consumption in grams of pure alcohol per person per day. Alcohol consumption is further divided into recorded data and unrecorded data. Recorded data is alcohol sales captured through excise department in most countries. World per capita alcohol consumption in CY 2021 is estimated at 6.6 liters of pure alcohol per year for the world population of 15 years above. The recorded alcohol per capita consumption for CY 2021 is estimated at 4.8 liters.

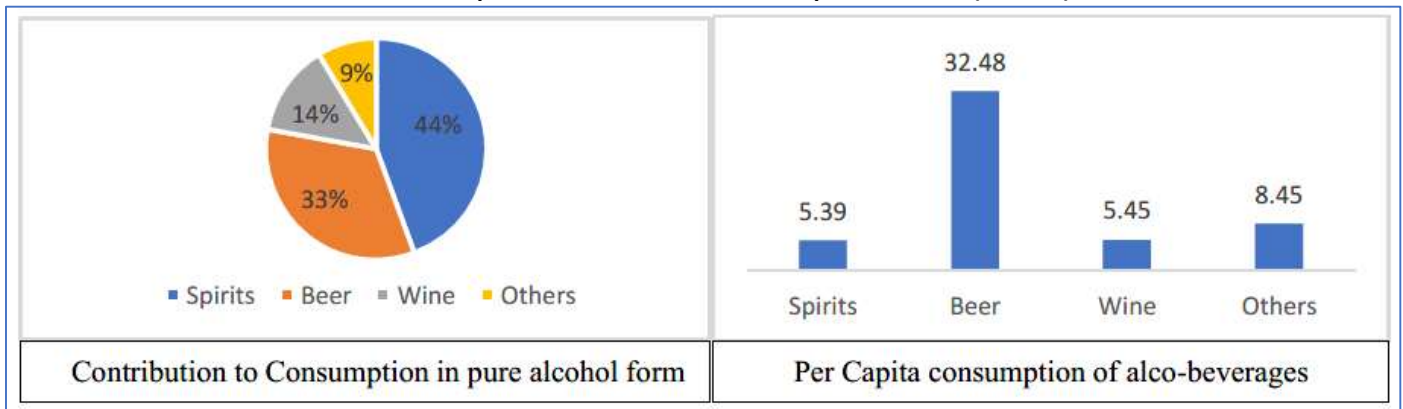
**World Per Capital Alcohol consumption in Pure alcohol form for CY (in liters)**



### Alcohol consumption is divided in three major product categories including spirits, beer and wine

Alcohol consumption is divided across three major categories of alcoholic beverages with varying trends across countries. The consumption of different alcoholic beverages has matured in developed economies, but it is still going through a transition in developing countries. Spirits as a category are more popular in developing countries, whereas contribution of beer and wine is higher in developed countries. An overall comparison shows that beer is the largest category in terms of actual volume consumed. Wine consumption is almost equivalent to spirits' consumption in actual litres of sales. As per WHO, contribution of wine in the consumption of alcoholic beverages has progressively risen from 8.6 per cent. in 2005 to 11.7 per cent. in 2016, and it is estimated to reach 13.5 per cent. in CY 2021 as per data on recorded 100 per cent. pure alcohol consumption.

World Per capita Recorded Alcohol consumption CY 2021 (in liters)



## India is one of the leading spirits markets, but other segments hold promise with growing income and evolving customer tastes. Low alcohol content drinks have a huge potential.

India is predominantly a spirits' market with more than 90 per cent. of alcohol consumed in the form of spirits. The per capita consumption of spirits in India is one of the highest among top economies of the world. A comparison with world averages shows that the share of low alcoholic beverages in overall consumption of alcohol is more than 50 per cent. In case of developed countries, it is more than 75 per cent. of overall alcohol consumption. In China's case, the share of low alcoholic beverages is more than 30 per cent. India, with its share of low alcoholic beverages at close to 8 per cent., is at a very low base and a prolonged period of correction in favor of wine and beer categories is bound to take place. A growing economy and positive demographic factors along with globalization are set to redefine the alcobeverage market in India. The share of wine and beer is projected to increase both by expansion of the market and taking a share of the market from spirits. While earlier, family celebrations with alcohol were very infrequent and viewed as taboo, it is more acceptable now in all kinds of social settings, be it birthday parties, get-togethers, official meetings, etc. Beer and wine with low alcoholic content are the preferred choice of drinks in such celebrations and are big opportunities in the Indian alco-beverage industry.

## 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 milliliters 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.

## Indian Alco-beverage Industry

### Size and Growth of the Indian Alco-beverage Industry

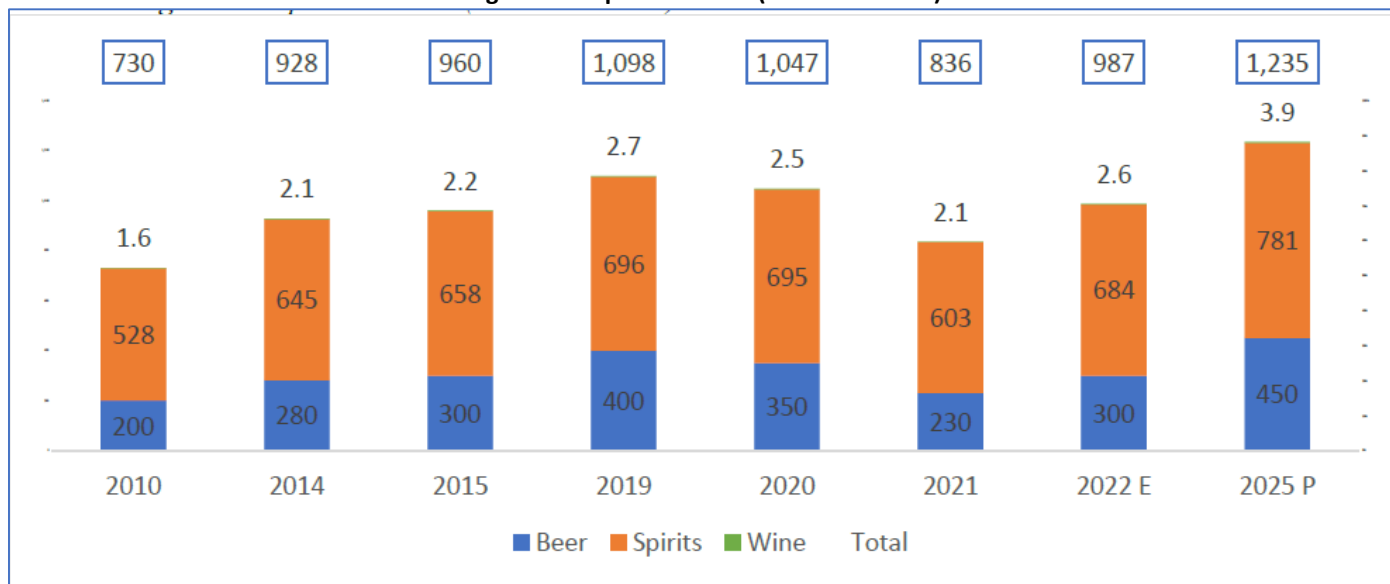
India is one of the fastest growing alcohol markets among the top economies in the world. The recorded per capita consumption of pure alcohol in India has moved from 0.9 liter in 2000 to 3 liter in 2015 at a CAGR of more than 8 per cent. The percentage drinking population of world is close to 41.7 per cent. and projected to stabilize around 40 per cent. in 2025. India's percentage of drinking population is projected to be close to ~33 per cent. in FY 2021 and 39 per cent. in 2025.

## Indian alcohol beverage market is more than a billion cases in size and highly dominated by spirits

The Indian alcohol industry size is estimated at more than one billion cases per annum in FY 2020. Recorded per capita consumption of pure alcohol has moved from 0.9 liters to 2.7 liters for the period between 2000 to 2010 with a CAGR of close to 12 per cent. Recorded per capita consumption of pure alcohol has been range bound around 3 liters from 2015.

High alcohol content spirits have dominated the Indian alcohol market. A volume-based analysis shows that alcohol beverage market in India is equally divided between country liquor, Indian-made foreign liquor (“IMFL”) and beer with a small contribution from wines and imported spirits. Beer and wine are poised to drive both volume and value growth for the alco-beverage market. The industry is projected to cross 1200 million cases in volume by 2025.

Alco-beverage consumption in India (in million cases) and CAGR



**Indian alco-beverage sector size is estimated at INR 2.6 lakh Crore in FY 2022, making it one of the biggest markets in the world.**

Indian alco-beverage market is the third largest market in the world after China and USA by volume in terms of actual alcohol content of alco-beverages in CY 2020. It is also the largest western spirits market in the world. Indian alco-beverage is projected to grow by a CAGR of 8 per cent. in volume for the period between FY 2022 to FY 2025 against the projected world market growth of 1.5 per cent. in volume for the same period as per IWSR. Indian market is projected to grow at 12 per cent. per annum in value terms for the period between FY 2022 to 2025. Indian market is dominated by IMFL which contribute close to 67 per cent. in value to the overall market in FY 2022.

Indian Alco-beverage market in INR Crore and USD billion



**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.

Though wine consumption is low in India, positive factors can lead to multi-fold growth of wine category in the country. Indian wine makers can take inspiration from a non-native market like China where contribution of wine at close to 4 per cent. to alcohol consumption is more than 50 times that of India. Economic trends common with China including growing income, rapid urbanization and growing international travel in the country will lead to growth of wine category in India. Wine category in India is estimated at 2.6 million cases in FY 2022 and projected to grow to 3.9 million cases by FY 2025 with a compounded annual growth rate of more than 14 per cent. in volume.

### **Key Players in Indian Alco-beverage Industry**

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 two spirits companies of the world control the Indian spirits market. The top three players in the spirits market control close to 50 per cent. of the spirits market in India by volume in FY 2022. The top three players in beer market control close to 80 per cent. of the beer market by volume in FY 2022. In case of wines, top three players control close to 80 per cent. by value of the domestic 100 per cent. grape wine market. There is a long tail of players in each of the segments with regional strong players especially in the spirits' market.

### **Key Trends in Alco-beverage Industry and Impact on Consumption**

**Indian alco-beverage industry is leveraging demographic dividend, growing income level and rapid urbanization to become one of the fastest growing markets in the world**

Indian alco-beverage industry has been one of the fastest growing markets in the world and the outlook continues to remain positive due to favorable demographics, expanding middle class, rising disposable income levels, greater preference for premium food and drink experiences, and greater acceptance of alcoholic beverages in social circles. Increased consumption of liquor in rural areas will be another major reason for the growth in the market. India is expected to add close to 10-12 million people to its workforce every year over the next two decades, with the working-age population projected to cross 1 billion mark by 2030. This provides tremendous opportunity to drive growth of alco-beverage industry on the back of its rising working-age population. Technology boom and increasing number of multinational companies in India have led to increased disposable income and prevalence of western culture of social drinking, which is boosting alcohol consumption. Growing prominence of 'pub and cocktail culture' in urban cities and emergence of novel food and beverage formats will further push demand for alcoholic beverages in the country.

### **Premiumization of alco-beverages in India**

Premiumization is the most important theme in each of sub-segments of Indian alco-beverage sector as volume growth led by popular segment in first decade and half of the century transitioned to value led growth in more premium segments in the last decade. The trend of premiumization is prevalent across the value chain including launch of new products, branding of shelf space in retail outlets, and company outreach to its customers through multiple marketing initiatives. Moreover, with the rise in disposable income, consumers would tend to upgrade their preferences, resulting in higher demand for prestige, premium and luxury segments. Rapid urbanization is also leading to spur in aspirational values of people, leading to higher consumption of premium alco-beverage brands. Indians traveling abroad is also leading to an upgrade towards premium segments in the alco-beverage market. The trend is further being amplified with the rising influence of social media on the millennials and rising aspirations. Growth in spirits market in India in the last five years is led by the premium segment followed by prestige and luxury segments with growth in popular segment being less than 5 per cent. by volume. Another trend which is gaining traction is the growing popularity of grain-based liquor as against traditionally popular molasses-based liquor. Diageo India entered premium craft whiskies with the launch of Epitome Reserve, a limited first batch of 2,000 bottles which is made from rice. Bacardi launched Bacardi Reserva Ocho in India in 2019 and Radico Khaitan launched premium variants of its Magic Moments Vodka portfolio in 2021.

### **Growth in Indian beer sector is led by premium category growing at close to double the rate of popular category.**

The Industry has evolved from manufacturing standard beers such as strong and lager beer to flavoured and variety beers in line with trends in developed countries. There are multiple launches in premium beer segment from the top three players. The top three companies in the Indian wine market have been focusing on the premium segment with the growing prominence of premium wines like Dindori Reserve Shiraz, Rasa Shiraz, Riesling White Wine, Sparkling Wine, Chenin Blanc White Wine, Fratelli Sete, etc.

### **Influence of On-Trade**

On-Trade sale has been one of the key drivers of growth and premiumization in Indian alco-beverage industry. There has been a year-on-year increase in On-Trade sales in India. Increasing preference for premium food and drink experiences is driving consumption of alco-beverages in On-Trade channel. The emergence of novel food and beverage formats is further driving the On-Trade sales of alcoholic drinks as consumers with higher disposable income spend more on alcoholic beverages as a share of their overall bills. On-Trade alcohol sales shrunk during FY 2021 due to the first wave of COVID-19 and the resultant lockdowns and restrictions in the restaurant industry. Sales are expected to pick up as people will start going out and a new normal will be established, and On-Trade will continue to remain an important source of profits for companies. The On-Trade platforms like PBCLs and FDINR also serve as a medium of surrogate marketing. BTL marketing is done by brand promotion teams through tastings, complimentary drinks, etc. On-Trade has a key role in introducing new tastes to consumers and as new products get prominence in On-Trade, the Off-Trade segment picks up, giving the product category a multifold growth. This is true for multiple products like pasta and pizza where seeding of product was done in the food services segment followed by multifold growth in retail channel. In case of wine, On-Trade has helped consumers appreciate wines. Retail category is going to leverage the prominence of wines in On-Trade to drive sales. Going forward, wine category will show higher growth in Off-Trade segments.

### **Growth of Wines**

The wine industry in India started in the late 1980s, however the industry gained momentum after the arrival of Sula Vineyards in 1998. The industry is nascent in terms of consumer with high scope for growth. With the 2001 Maharashtra Wine Policy, recognizing wine as a key agro-processing industry and reduction of excise duty was a step towards growth of wine. Other states like Karnataka came up with similar policies. With the increase in disposable income, especially among women, urban earning women are driving the growth of wine segment in India. There is a shift in trend from binge drinking towards social drinking, which has also led to a widespread inclusion of wine in parties and gatherings. Wine is becoming a preferred drink for millennials who look to socialize after office hours and on weekends. Looking at the growth trajectory of wine in other countries like China – where per capita consumption increased from 170 milliliters in 1980 to 1 liter in 2000 and other developed countries like Italy and France where consumption of wine and beer is almost equal, there is a potential for huge growth in India. Favorable wine policies in the future like in Maharashtra, which is aiming to impose a nominal excise duty and the availability of wine in regular retail stores will further boost the wine sales in the country. Top wine companies in India led Sula Vineyards and followed by Fratelli and Grover Zampa with leadership position in the Indian wine market, coupled with sufficient capacity to increase production have advantage to meet increased consumers' demand as the share of wine consumption increases in India.

### **Growing Interest in Wine Tourism**

Wine tourism, also known as Eno tourism, is about visiting the vineyards, tasting wines, or even taking active part in the harvest leading to tasting, consumption and purchase of wine while taking active part in the process by grape stomping. In developed countries such as the USA, 2.7 Crore travelers engage in wine tourism and fifty lakh travelers engage in wine tourism in Italy, leading to generation of huge revenues. In India, Sula Vineyards established the first Wine Tasting Room in 2005, marking the initiation of wine tourism in India. Consumers who visit the vineyards for a stay can also get an in-depth knowledge of the process of tasting wines, savouring them with food, and understanding the process of both wine making and tasting. Sula Vineyards is the most visited vineyard in India, with about 3,68,000 people visiting Sula Vineyards's vineyards in FY 2020. Sula Vineyards also pioneered in starting an annual musical festival "SulaFest" in 2008, involving a two-day celebration of wine, music and food in Nashik, Maharashtra. "SulaFest," widely recognized as the largest wine festival in India with more than 10,000 people in attendance in 2020 is also one of the largest wine music festivals in Asia. A lot of "first-time" wine tasting is done in Sula Vineyards's vineyards with people tasting their first glass of wine in India, thus establishing the importance of wine tourism. It also helps build a loyal consumer base given the quality of their wines. Wine tourism is unique to the alco-beverage market in India as wineries are allowed to sell directly to the final consumer visiting wineries. This opportunity to sell directly to the customers make wine segment the only player in the D2C segment. Sula Vineyards, with its prominence in wine tourism in India, is the leading D2C alcobeverage brand in India. Sula Vineyards has been the pioneer of wine tourism in India and intends to continue this growth trajectory. The Nashik region in Maharashtra, which Sula Vineyards has been instrumental in developing with its wine tourism offerings, is often regarded as India's equivalent to Napa Valley.

### **Alcohol Abuse as a Social Issue**

Abuse of alcohol is perceived as one of the leading risk factors worldwide and perceived to have a direct impact on many health-related targets of governments. Harm from a given amount of drinking are higher for poorer drinkers and their families than for richer drinkers. Public health policies, strategies and interventions also take in account the frequent association of alcohol consumption with the use of other psychoactive substances, particularly with opioids for prevention of overdose and for road safety. Alco-beverage companies have come together and taken up promotion of responsible drinking including 'No Drink and Drive' as part of their marketing and advertising plans. Alco-beverage companies also highlight their contribution to government exchequer and overall contribution to the economy to fight negative image of the sector.



Alco-beverages with low alcohol content are gaining acceptance as they are perceived as healthier and recreational against spirits with high alcohol content. This is driving consumption of both beer and wine. Governments in India are promoting low alcoholic beverages with favorable retailing policies. Uttar Pradesh has allowed for setting up premium outlets in malls and allowed for sampling activity. Government in Maharashtra also allows for exclusive wine and beer shops.

## Regulatory Overview

Alco-beverage industry has been saddled with extra burden of regulations due to perceived effect and abuse of alcohol. Globally, countries have alcohol policies consisting of laws, rules, and regulations that aim to prevent and reduce alcohol-related health complications. Alcohol policies incorporate a multilevel, multicomponent approach, targeting multiple determinants of drinking such as availability, price, marketing, and drink-driving. Sale and production of alcohol is regulated in majority of countries in the world to guard against harmful use of alcohol. These policies include control from production, pricing, storage and movement, and final consumption of alcohol.

## Extensive Regulations in the Indian alco-beverage industry

The alcohol industry is subject to extensive government regulations, as well as regulations by a variety of local bodies. Some regulations are listed below. There are interstate duties levied on molasses, which is used in producing liquor in India. As molasses is produced mainly in Uttar Pradesh and Maharashtra, the liquor companies must pay duties when they import it into their state.

Both direct and indirect advertising of alcohol is prohibited, and it can be advertised only at point of sale (POS). Launching a new alcohol brand/product is a difficult and time-consuming process. It can take months to years and the company needs to seek multiple permissions and approvals from the government for the same. In some states companies can change/increase the price of their products only once a year when the state governments determine the prices, export duty is imposed by the state from which the alcohol is sourced, and an import duty is imposed by the state to which the alcohol is transported. Registration with Canteen Store Departments, which account for approximately 15 per cent. of the overall liquor consumption, can take over nine months.

## Regulations on alco-beverage industry are being re-evaluated to look at low alcohol content alco-beverages independently from high alcohol content spirits

Regulations on alcoholic beverages in India have long looked at different alco-beverages as similar in nature. However, growing awareness, acceptance in society, and input from industry are leading to regulations being recalibrated to look at low alcohol drinks as a separate entity from spirits. Policy initiatives are looking to wean away customers from hard liquor to low alcohol beverages, including beer and wine. Policy initiatives include friendlier policies towards the setting up of new units such as microbreweries, labeling and licensing, retailing including licenses limited to beer and wines, sampling opportunities and reduction in excise duties. Promotion of wines also helps a large section of farmers diversify into grape cultivation who can get more remuneration and assured prices for their produce. Maharashtra and Karnataka, the top two grape-producing states in India, have taken the lead in promotion of wines with friendly excise and related policies.

Maharashtra's grape processing industry policy 2001 was the first policy initiative to promote production and sale of wines produced in the state. The policy provided for recognition of the wine industry as a small-scale industry as well as a preferential area for granting of loans. The policy also took initiatives to make production and sale of wine much easier with reduced license fees and a single window for approvals. The policy has kept excise payable on wines in abeyance and put in place a reduced sales tax at 20 per cent. as against 35 per cent. and 40 per cent. for other alco-beverages in the market. Maharashtra's government also has a policy of limited licenses for beer and wine sales which are easier to procure, which helps in increasing retail penetration of wines.

Karnataka's wine policy 2007 is the second important wine policy in the country which recognized wine production as a horticulture and food processing industry, making it eligible for all the incentives available for the industry in the state. It also provides for additional subsidies for setting-up of wineries in the state. The policy ensured that licensing policy is simplified. It also provided for relief in excise duty for wines produced in the state and waiver of label registration fees in the state. The policy allowed for sale of wine at bars and restaurants at a minimal fee. The policy also seeks to promote wine tourism by allowing sales at premises of wineries. Uttar Pradesh's excise policy 2021-22 has put in place incentives to set up wineries in the state with excise holiday for five years, permission to sell at wineries and permission for wine tasting. It also promotes sales of wine through a range of measures, including placement of product and sampling opportunities. Andhra Pradesh also has a policy of excise benefit for wine produced in the state.

Multiple states have put in policy initiatives which are lenient towards retailing of wines with permission to sell and sample at exclusive outlets or high retail outlets. States are also promoting premium categories of alco-beverages which are generally bought by affluent sections of society. Policy initiatives include lenient retailing licenses, attractive retailing units, sampling opportunities and similar incentives. This is also helping wine sales in different states. Delhi's and Uttar Pradesh's excise policies have put in place policies to promote premium alco-beverages and wines. Odisha has also put in a policy for exclusive outlets for premium alco-beverages.

### **Import Duties on Foreign Liquor**

Foreign liquor imported into India is charged under customs duty as per the Customs Act 1962. Customs tariff is applicable on finished products like Scotch whisky bottled in the country of origin or bulk Scotch whisky imported for bottling in India, as well as intermediate products like undenatured ethyl alcohol of alcoholic strength by volume of 80 per cent. vol. or higher which is used for blending with production in India. Import of alcohol into India is dominated by whisky, contributing close to 60 per cent. in volume and close to 80 per cent. in value. Alcoholic beverages bottled in origin are subject to excise and all other duties as per the excise rules of each state on the calculated EDP in most cases. States look at imported liquor as an opportunity to increase revenue or, in some cases, charge high excise duty to support local industry. High customs duty coupled with high excise and other state duties make the imported alcoholic beverages market challenging in India.

### **Free Trade Agreements can be a win-win for the alco-beverage sector in India**

Free Trade Agreements (FTA) have the potential to bring down the prices of imported alco-beverage in India. Any FTA must successfully balance conflicting goals of opening trade and protecting domestic interests. A good trade deal has four cornerstones: (a) it offers equal opportunities to both sides, (b) tariff rates are designed to ensure a true level field, evening out disparities, (c) it is comprehensive, covering both tariff and non-tariff issues, and (d) it has mechanisms in place to prevent misuse.

### **Overview of Indian Wine Market**

#### **History of Indian Wine Market**

Wine was introduced into India by the Portuguese and the French, initially in Goa in the early 16th century, but the establishment of the British Raj ensured that spirits took center stage in the Indian alcohol industry. Modern wine making in India was initiated in the 1970s with multiple initiatives, but wine as an industry in India is largely a post calendar year 2000 phenomenon. Prior to 2000, wine produced domestically was largely small scale and confined to pockets, or comprised imported products that were essentially sold in 5-star hotels.

### **Installed agri base playing a critical role in wine becoming a mainstream drink from selective use to an urban consumer product in the last two decades**

India is among the top three table grape growing countries in the world, with significant acreage under grape cultivation. This inherent advantage is a key driver for growth of production and consumption of wines. Grapes for wines are different than table grape varieties, but it requires minor tweaks for grape farmers to make this transition. This transition is far easier to undertake than preparing new acreage for grapes from scratch. The transition for farmers from table grapes to wine grapes is also more beneficial because of higher price realization to the farmers as well as the overall value chain of economic activity from grapes.

### **Progressive regulations in two major wine-producing states helps industry**

Maharashtra and Karnataka are the two key major grape-producing regions in India, accounting for 95 per cent. of total table grapes and 97 per cent. of total wine grapes produced in the country. Both states recognized the need for a timely intervention to introduce progressive policies to enable the growth of wine to support the growth of wine grapes agriculture. This was for the obvious reasons of increasing farming income by producing more share of grape produced in favor of wine grapes. Both states modified their respective liquor state policy and bifurcated wine from other spirits. Maharashtra did so first, in 2001, and Karnataka took the cue from the success of this policy and implemented the same in 2007.

The regulatory changes were aimed at making consumption, retailing and storage of wine easier and enabling sales of wine produced from grapes grown within the state. Excise slabs were significantly relaxed for wine products from within the state that otherwise are much higher for other alco-beverage drinks. Similarly, retailing and serving of wines within both Maharashtra and Karnataka has been easier compared to other states viz. home deliveries in cities like Bengaluru and Mumbai. Maharashtra is expected to further liberalize wine sales in the state in its new wine policy applicable from January 2022. The existing wine policy in Maharashtra was valid till the end of 2021 and the proposed new progressive wine policy includes permission to allow wine sales in supermarkets and on dry days and through e-commerce platforms as well. However, the provision of sale of wine from supermarkets is still part of draft rules and the final decision of the state government is pending. Taking their cue from these two states, other states like Haryana and Uttar Pradesh have relaxed consumption-related rules related to wines.

Maharashtra's 2022 wine policy is poised to take the next set of important steps to drive growth of the domestic wine market. The new policy proposes to allow the sale of wine from regular outlets including supermarkets, shop in shops, daily needs shops, department stores, bakeries and similar outlets. Wines can also be sold through ecommerce websites and apps. The new policy initiative may also allow sale of wines on dry days. The policy may also reduce the minimum drinking age for wines from the current age of 21 years.

### **Emergence of category-focused players driving transition of grape growers from table grapes to wine grapes**

The net realization of farmers to switch production from table to wine grapes and the progressive regulations for wines in Maharashtra and then Karnataka were an outcome of wine-focused start-ups like Chateau Indage and Sula Vineyards. These companies took a lead in

initiating domestic wine production opportunities in India. The initiative of companies like Sula Vineyards in the early 2000s, signified by piloting wine production from wine grapes in Nashik, Maharashtra, initiated the creation of an ecosystem of domestic wine industry in the country. This ecosystem steadily created a business case for progressive regulations and for a pull from grape farmers to switch from table grapes to wine grapes. Consequently, in the last two decades, companies like Sula Vineyards have been category creators in India, followed by companies like Grover Zampa and Fratelli. These companies have transitioned from start-ups to category creators of the wine industry in India. They have remained at the forefront of collaborating with farmers to facilitate the expansion of wine grape cultivation, to share knowledge of growing wine grapes and improving the quality of grapes, of refining the wine produced through product development initiatives and of brand building and category advocacy among Indian consumers. Chateau Indage was the industry leader until 2009. Post the Chateau Indage era, Sula Vineyards has taken over the mantle of industry leader and category creator. Sula Vineyards, along with Fratelli Wines and Grover Zampa Vineyards, are the top three wine companies playing an important role in the development of the wine industry in India.

## **Wine Market in India**

### **Wine Market Size in India**

Indian Wine Market is expected to grow at a CAGR of 14 per cent. in terms of volume from FY 2022 to FY 2025 with domestic players dominating volumes. The Indian wine market crossed 2.5 million cases in FY 2020. However, the sluggish economy followed by the COVID-19 pandemic pulled the market down. The Indian wine market is projected to grow to 3.9 million cases by FY 2025. The Indian wine market today is dominated by domestic wines with the share of imported wines projected to come down from 19.2 per cent. in FY 2020 to 18 per cent. in FY 2025 in volume terms.

### **The Indian Wine Market is projected to reach INR 3,785 Crore by FY 2025 with a CAGR of 20 per cent. From FY 2022 to FY 2025**

The Indian wine market by value reached ~INR 1,900 Crore in FY 2020 and then decreased to INR 1,625 Crore in FY 2021. This decline is attributed to the lockdowns and restrictions imposed due to COVID-19 on liquor shops and food services industry. The domestic 100 per cent. grape wine market specially the elite and premium segment has shown higher resilience as compared to the overall wine market in India. The elite and premium segment recorded lower de-growth at 13.5 per cent. by value. However, it is estimated to go above pre-pandemic levels by the end of FY 2022 and increase to INR 3,785 Crore in FY 2025 with a CAGR of 20 per cent. from FY 2022, surpassing the growth rate of the overall alco-beverage industry over the same period (CAGR of 12 per cent. from FY 2022 to FY 2025). The wine industry is leveraging positive factors, including premiumization of the alcobeverage industry, wider acceptance of wine as a social drink and the growing perception of wine as a healthy alternative to spirits.

### **Indian Wine market is leveraging premium segment to drive growth as 100 per cent. grape wines gain prominence**

The domestic wine industry has suffered with the prominence of fortified mixed wines, which contributed close to 36 per cent. to the market by volume in FY 2015. The low quality of fortified mixed wines made with the addition of molasses and sugar with a price below Rs. 200 for a 750 ml bottle contributes to the lower end of the popular segment in domestic wines. These beverages, passed as wines with high alcohol content of more than 20 per cent. in some cases, serve the lower end of the market. However, the share of low-quality fortified wines has been coming down in recent years, from 38 per cent. in FY 2014 to 12 per cent. in FY 2022. Segmentation of the wine market categorizes wine into 100 per cent. grape-based wines and fortified mixed wines. 100 per cent. grape wines fared much better than fortified mixed wines in FY 2021, with lower degrowth of 15 per cent. by value against 30 per cent. degrowth by value in mixed fortified wines.

### **The Indian domestic 100 per cent. grape wine market is set to grow by CAGR of 22 per cent. by value from FY 2022 to FY 2025**

The Indian domestic 100 per cent. grape wine market is estimated at INR 1,345 Crore in FY 2022, dominated by the top three players contributing close to 80 per cent. of the market by value. This is unique to India, as even though it is a relatively young market, it is a consolidated market with Sula Vineyards being a clear market leader commanding a market share of close to 52 per cent. in FY 2022 by value.

### **The Indian domestic 100 per cent. grape wine market is unique as top three players contribute 80 per cent. Of the market in value terms**

The domestic Indian 100 per cent. grape wine market is a "Still" wine market with contribution of more than 90 per cent. by volume to the market in FY 2020. Red wine contributes close to 70 per cent. by volume of the market. The share of white wine is going down, with sparkling and rosé wines growing faster than both red and white wines. Sula Vineyards, with its range across all the four wine categories, including red, white, rosé and sparkling wines, holds the leadership position in the four categories in FY 2020.

The Indian wine market can also be divided into four segments based on price, starting with the popular segment with price point up to INR 400. The premium and elite segments, with price points above INR 700, are driving growth in the market. These two segments are seeing new product launches by the top players. The premium and elite categories are estimated to contribute close to 61 per cent. by value and 40 per cent. by volume of the Indian domestic 100 per cent. grape wine market in FY 2022. The premium and elite categories

are projected to grow at a CAGR of 19.7 per cent. by volume for the period between FY 2022 and FY 2025 as compared to overall category growth of close to 15.8 per cent. for the same period. Sula Vineyards is the market leader across all the four price segments, with higher share of close to 61 per cent. by value in the premium and elite categories in FY 2022. Sula Vineyards is India's largest wine producer and seller as of March 31, 2022 and has consistently been the market leader in the Indian wine industry in terms of sales volume as well as value (on the basis of the total revenue from operations) from FY 2009 crossing 50 per cent. market share by value in domestic 100 per cent. grapes wine market in FY 2012. It has consistently gained market share (on the basis of total revenue from operations) from 33 per cent. in 2009 in 100 per cent. grapes wine category to 52 per cent. in value in FY 2022. Sula Vineyards distributes 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. It has the largest range of wines in the Indian market and leadership in all the four price segments including Popular, Economy, Elite and premium segments of domestic 100 per cent. grape wine category for the last six years from FY 2017 to FY 2022. It is playing the key role of category creator in India. Sula Vineyards has higher share in elite and premium category. It crossed 60 per cent. market share by value in FY 2019 and increased at 62 per cent. by value in FY 2022. As India's largest wine producer and seller as of March 31, 2022, Sula Vineyards can harness its market leader position for future growth opportunities in the Indian wine market with its wide range of offerings for consumers across various price points.

Sula Vineyard's wines are leading wines in each of their categories. Shiraz Cabernet, with estimated retail sales of INR 138 Crore in FY 2021, is India's largest selling wine by value. Shiraz Cabernet is the top selling wine in domestic 100 per cent. grape wine market from 2016. Sula Shiraz Cabernet, Sula Chenin Blanc, Sula Zinfandel Rosé and Sula Brut are India's best-selling red, white, rosé and sparkling wines, respectively, for FY 2021. SulaVineyards also has the competitive advantage of a strong distribution network, which has helped it launch seven labels under its brands 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 FY 2021.

Fratelli wines is the second largest player in the Indian domestic wine market; it grew by an annual growth rate of 31 per cent. for the period between FY 2015 and FY 2020, which is almost double the industry growth rate. It has presence across all price segments and wine categories in the Indian wine market. It also has international awards for its range of Indian wines. Grover Zampa vineyards is the oldest wine company out of the top three wine companies, with operations started in 1992 and the launch of its first wine in 1998. Grover Zampa has recently been quite active with collaboration with international wineries in Burgundy, France and launches of wines from the same winery. It has also bought over Four Seasons wine and Charosa wines to bolster its presence with access to captive production units and vineyards.

#### **Wine market in India has the potential to grow from Metros to Tier 1 cities of the country**

The opportunity for sale of wines in India has been concentrated in top cities thus far. It needs more exploration in tier 1 cities and penetration in metro cities, given the low penetration of wines in India. Metro cities will continue to be the top driver for wine sales in the country for the next five years. More opportunity will come up in tier 1 cities as awareness of wines increases and new customers are recruited to the category. Wine companies need to invest in their distribution and marketing to drive recruitment of new customers to the category. The top three players in the domestic wine market dominate the major wine markets of India. Sula Vineyards, with a dominant share of 60 per cent. in Maharashtra, 45 per cent. in Karnataka and 40 per cent. in Delhi by value in FY 2020, has a strong presence in each of the key markets. Sula Vineyards is followed by Fratelli, which in a short span of 10 years has overtaken Grover Zampa to become the second largest player in each of the three markets highlighted above. As demand for wines in urban and semi-urban areas of India is already on the rise, the top wine companies in India, led by Sula Vineyards with its extensive experience, tailored specific capabilities across product development, marketing, technology, supply chain, fulfillment, and consumer service, sought to create a differentiated ecosystem for consumers.

#### **Key Factors Driving Growth of the Wine Market in India**

##### **Growing income levels and rapid urbanization leading to premiumization of alco-beverages**

A rise in disposable income is leading to consumers upgrading their preferences. Rapid urbanization is also leading to a surge in aspirational values of people, leading to higher consumption of premium alco-beverages, especially wines.

##### **Growing awareness about wines**

The increase in the number of Indians traveling abroad is also leading to an upgrade towards Premium segments, especially wines in the alco-beverage market. The emergence of novel food and beverage formats is also increasing awareness of wines. The trend is further being amplified by the rising influence of social media on millennials and by rising aspirations.

### **Wider appeal across consumer demographics**

Globally, the appeal of wine has been gender- and age-neutral. Similar positioning of wine has enabled the market development for wines in India, particularly among women, and has supported its growth since 2000. The popularity of wine has grown across age groups and gender types. This is different than hard spirits like whiskey that skew towards men.

### **Popularity of wine among women**

Female consumers have equal say in the purchase of wines, whereas participation of women in the purchase of other alco-beverages is very low. The rising participation of women in the workforce is driving the growth of alco-beverages, led by wines.

### **From Binge to Discerning**

Alcohol consumption in the popular imagination is centered around drinking for the purpose of getting a high and, for the significant market driven by hard liquor, that continues to be the case. However, the growth of wine also manifests the development of the consumer class that appreciates liquor as a discerning choice for taste.

### **Growing Perception of Health Benefits**

A growing awareness of perceived health benefits from consuming wine is driving growth of the wine market in India. A segment of wine consumers has a disposition towards healthy living and these consumers therefore appreciate wine for its healthier connotations over other types of liquor.

### **On-the-go consumption of Digital Media**

The growth of OTT (over the top) platforms has enabled digital media to proliferate content to the target consumer that showcases wine as a discerning choice. Product placement of wine in popular and vernacular shows (Mirzapur, Four More Shots Please! The Good Wife, etc.) and in specialist shows on food, culinary and living (Masterchef, Discovery Channel, etc.) has created a pull for wine in India.

### **Increase in home consumption**

Over the years, wine has become a regular category to stock and consume at home. This is witnessed through the growth of retailing options like direct to home delivery that is patronized by the consumer segments for purchase and delivery of wines at home (in applicable locations). Developing regulations allowing retailing through digital apps, websites and phone ordering will further help the market grow. Wine at home is consumed both on regular occasions like get-togethers with friends or family and celebrations like weddings or birthdays.

### **Growth of wine tourism**

The growing popularity of wine tourism is driving new customer recruitment for wines. During a visit to a vineyard, customers are acquainted with the complete chain of activity leading to the making of wine. Active participation and first-hand experience lead to intimate long-term association with wines. Wine tourism has also led to emergence of a strong customer base through the D2C channel which is unique to wine category in India.

### **Favorable Regulations around wine processing and retailing**

Favorable regulations treating wines as unique and separate from other alco-beverages is one of the key drivers of wines. Favorable regulations in Maharashtra and Karnataka have played a key role in the growth of the domestic wine industry in India. The new wine policy of Maharashtra, which proposes allowing the sale of wine through regular supermarkets, could be a game-changer for the Indian domestic wine industry. New excise policies in Delhi and Uttar Pradesh have taken initiatives to treat wines as a unique category of alco beverage industry.

### **Emerging growth opportunities for Indian Wine brands**

#### **Growth in Wine Tourism**

Wine tourism is increasingly becoming an important adjunct in terms of attracting new customers as well as a source of revenue generation. Wine tourism brings to the fore all activities in wine making from planting grapes to selling wine. This is becoming an established industry in the top wine-producing countries in the world. In India, Sula Vineyards established the first wine tasting room in India in 2005, marking the initiation of wine tourism in India. The consumers who come to the vineyards for day-visits and/or for overnight stays can also get an in-depth knowledge of the process of tasting wines, savoring them with food and understanding the process of both winemaking and tasting. Sula Vineyards also pioneered in starting an annual music festival "SulaFest" in 2008, involving a two-day celebration of wine, music, and food in Nashik, Maharashtra. This festival is widely sought after, with more than 10,000 people in attendance in 2020. A lot of "first-time" wine tasting is done in vineyards, thus establishing the importance of wine tourism. It also helps build a loyal consumer base given the quality of their wines. "SulaFest" is the first and the largest wine music festival in India.



Direct to consumer (“D2C”) channel also aids revenue generation for companies selling wine. Sula Vineyards, with its prominence in wine tourism, has a strong presence in this D2C segment with highest sales in the D2C segment through its wineries at Nashik, Maharashtra and Bengaluru, Karnataka. Close to 3,68,000 people visited Sula Vineyards in FY 2020 which would make it one of most visited vineyards in the world. This gives it the advantage of introducing wines to a large set of new customers. Other prominent wineries including Fratelli, and Grover Zampa also have a dedicated wine tourism wing to promote wines. Both Karnataka and Maharashtra state governments have put in place incentives to drive wine tourism.

## Key Concerns

- Industry is subject to a licensing and excise regime with changing laws, rules and regulations and legal uncertainties, including adverse application of corporate and tax laws.
- SVL 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 its Wine Business
- Adverse climatic conditions may impact the quality of wine grapes which are key raw materials.
- Any supply disruptions in raw materials could adversely and materially affect the business
- SVL may not be able to adjust the retail prices of its products as a result of state regulation.
- Consumer’s taste and preference may change and they may not prefer wine in the future. Failure to adapt its product offerings to changing market trends and consumer tastes, preferences and spending habits could cause its sales to decline, and it may not be able to maintain its competitive position in the alcohol beverage and wine industries
- Rely heavily on brand portfolio and the success of its business strategy depends on the ability to enhance its brands
- 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 the business, results of operations and financial condition.
- SVL 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.
- SVL has in the past entered into related party transactions and may continue to do so in the future, which may potentially involve conflicts of interest.
- SVL’s 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 the business, results of operations, future cash flows and financial condition.
- Advertising of alcoholic beverage products is restricted in India and SVL is unable to advertise its products by traditional means.
- SVL may experience a disruption, shutdown or slowdown of its manufacturing operations
- Any actual or alleged contamination or deterioration in the quality of SVL products or its raw materials could result in legal liability, damage its reputation
- The seasonality of the wine industry requires SVL to predict demand and build up inventory accordingly, and it may be unable to accurately manage inventory and forecast demand for particular products in specific markets.
- Wine Tourism Business is subject to seasonal and cyclical variations that could result in fluctuations in results of operations and cash flows.



- SVL may experience disruption in transportation arrangements for its products. A lack of adequate storage and transportation facilities for wine products may also impact the public perception of the Company.
- The supply and distribution infrastructure and network to sell its products is subject to disruption.
- SVL may be unable to effectively manage future growth and expansion.
- Business is capital intensive, and SVL incur high fixed costs on a recurring basis to sustain and expand its business operations. It may not be able to obtain sufficient capital on terms favourable to it, or at all, which may hamper the business and growth.
- SVL may experience delays and default in payments from distributors and/or corporation partners.
- Dependent on a number of key management personnel, including senior management, and a loss of the services of these key management personnel or other issues impacting employee relations could adversely affect the business, future cash flows, results of operations and financial condition.
- SVL may be unable to obtain, maintain or renew requisite statutory and regulatory permits and approvals for the business operations.
- Termination or non-renewal of business agreements (including supply agreements) or any material modification to the existing terms under such agreements adverse to SVL interest will materially and adversely affect its operations and future financial performance.
- SVL do not own the premises of two of its production facilities and have also taken certain other premises including a vineyard resort, sales offices and guest houses on lease.
- Inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely affect the brand and the business.
- SVL may be unable to service debt obligations in a timely manner or to comply with various financial and other covenants and other terms and conditions of its financing agreements
- Property operation costs and expenses of vineyard resorts may not decrease even if their occupancies decline.
- The hospitality industry is service-oriented and SVL's Wine Tourism Business may be adversely affected if it is unable to compete effectively for skilled hospitality employees.
- SVL may experience under-utilization of manufacturing facilities due to non-availability of fuel, electricity also resulting in interruptions of operations.
- Operations at manufacturing facilities are labour intensive, and employees are affiliated with trade unions. Its operations could be adversely affected by strikes, work stoppages or increased wage demands by its employees or any other kind of disputes with its employees.
- Face foreign exchange risks that could adversely affect the results of operations.
- Business is substantially affected by prevailing macroeconomic, political and other prevailing conditions in India.
- If inflation were to rise in India, SVL might not be able to increase the prices of its products at a proportional rate in order to pass costs on to its customers thereby reducing its margins.
- SVL may be affected by competition laws, the adverse application or interpretation of which could adversely affect the business.
- Government regulation of foreign ownership of Indian securities may have an adverse effect on the price of the Equity Shares.



## Profit & Loss

Particulars (Rs in million)	H1FY23	FY22	FY21	FY20
Revenue from operations	2240.7	4539.2	4179.6	5216.3
Other Income	16.9	27.8	35.5	15.6
<b>Total Income</b>	<b>2257.6</b>	<b>4567.0</b>	<b>4215.1</b>	<b>5231.9</b>
<b>Total Expenditure</b>	<b>1614.5</b>	<b>3406.3</b>	<b>3570.0</b>	<b>4727.0</b>
Cost of materials consumed	206.0	1114.2	669.1	1092.8
Excise duty	117.8	295.0	320.2	363.9
Purchase of stock-in-trade	117.0	204.3	752.0	1325.2
Changes in inventories of finished goods, stock-in-trade and work-in-progress	164.6	-147.0	153.7	-143.2
Employee Benefits Expenses	371.0	653.4	554.8	657.3
Selling, distribution and marketing expense	245.9	445.5	467.0	524.6
Other expenses	392.4	840.9	653.2	906.3
<b>PBIDT</b>	<b>643.1</b>	<b>1160.7</b>	<b>645.1</b>	<b>504.9</b>
Interest	104.7	229.2	333.9	328.9
<b>PBDT</b>	<b>538.4</b>	<b>931.5</b>	<b>311.3</b>	<b>176.0</b>
Depreciation and amortization	125.8	236.1	257.0	350.0
<b>PBT</b>	<b>412.5</b>	<b>695.4</b>	<b>54.3</b>	<b>-174.0</b>
Exceptional items	0.0	0.0	-22.4	0.0
<b>Tax (incl. DT &amp; FBT)</b>	<b>107.5</b>	<b>174.0</b>	<b>1.7</b>	<b>-14.6</b>
Current tax	113.2	165.1	16.4	4.2
Deferred tax	-5.8	8.9	-14.7	-18.8
<b>PAT</b>	<b>305.1</b>	<b>521.4</b>	<b>30.1</b>	<b>-159.4</b>
EPS (Rs.)	3.8	6.8	0.4	-2.1
Face Value	2	2	2	2
OPM (%)	27.9	25.0	14.6	9.4
PATM (%)	13.6	11.5	0.7	-3.1

## Balance Sheet

Particulars (Rs in million) As at	H1FY23	FY22	FY21	FY20
<b>Non-current assets</b>				
Property, plant and equipment	3,412.0	3,444.1	3,040.2	3,262.5
Capital work-in-progress	119.5	9.8	1.1	1.2
Right-of-use assets	107.7	93.0	125.3	236.9
Goodwill	8.5	8.5	0.1	26.9
Other intangible assets	63.6	66.8	12.0	20.1
Financial assets				
<i>Investments</i>	0.0	0.0	0.0	0.0
<i>Loans</i>	21.3	19.2	10.9	11.1
<i>Other financial assets</i>	379.7	209.7	218.2	188.9
Non-current tax assets (net)	1.7	2.1	1.4	87.6
Deferred tax assets (net)	0.0	0.0	0.0	0.4
Other non-current assets	78.0	26.9	37.4	43.6
<b>Total non-current assets</b>	<b>4,191.9</b>	<b>3,880.2</b>	<b>3,446.6</b>	<b>3,879.3</b>
<b>Current assets</b>				
Inventories	1,472.7	1,622.6	1,439.3	1,713.4
Financial assets				
<i>Investments</i>	0.0	0.0	0.0	0.8
<i>Trade receivables</i>	1,025.4	1,093.9	1,236.2	1,517.4
<i>Cash and cash equivalents</i>	137.1	102.0	407.9	374.7
<i>Bank balances other than cash and cash equivalents</i>	88.0	93.9	109.7	28.0
<i>Loans</i>	14.6	11.5	11.4	23.9
<i>Other financial assets</i>	703.4	736.2	468.9	651.7
Non-current assets and assets of a disposal group classified as held for sale	0.0	0.0	320.8	0.0
Other current assets	76.6	45.3	75.2	121.2
<b>Total current assets</b>	<b>3,517.6</b>	<b>3,705.4</b>	<b>4,069.4</b>	<b>4,431.1</b>
<b>Total assets</b>	<b>7,709.5</b>	<b>7,585.6</b>	<b>7,516.0</b>	<b>8,310.4</b>
<b>EQUITY &amp; LIABILITIES</b>				



<b>Equity</b>				
Equity share capital	163.2	157.2	150.8	150.4
Other equity	4,328.7	3,795.4	2,896.6	2,849.0
Non-controlling interest	0.0	0.0	0.0	24.0
<b>Total equity</b>	<b>4,491.9</b>	<b>3,952.6</b>	<b>3,047.4</b>	<b>3,023.5</b>
<b>Liabilities</b>				
<b>Non-current Liabilities</b>				
Financial Liabilities				
<i>Borrowings</i>	412.2	480.7	591.2	788.2
<i>Lease liabilities</i>	78.4	62.4	100.1	186.9
Provisions	30.7	19.9	99.6	81.5
Deferred tax liabilities (net)	162.1	168.6	159.7	175.5
<b>Total non-current liabilities</b>	<b>683.5</b>	<b>731.6</b>	<b>950.6</b>	<b>1,232.1</b>
<b>Current liabilities</b>				
Financial liabilities				
<i>Borrowings</i>	1,734.3	1,808.6	2,421.4	2,894.2
<i>Trade payables</i>				
<i>total outstanding dues of micro enterprises and small enterprises</i>	15.1	4.8	9.7	11.2
<i>total outstanding dues of creditors other than micro enterprises and small enterprises</i>	373.7	669.7	573.6	815.6
Other financial liabilities	170.5	142.3	144.7	173.3
Lease liabilities	46.2	47.4	39.0	58.1
Provisions	30.3	27.2	13.0	19.0
Other Current Liabilities	162.9	186.9	168.1	83.4
Current tax liabilities	1.4	14.5	12.7	0.0
Liabilities of a disposal group classified as held for sale	0.0	0.0	135.9	0.0
<b>Total current liabilities</b>	<b>2,534.2</b>	<b>2,901.4</b>	<b>3,518.0</b>	<b>4,054.8</b>
<b>Total liabilities</b>	<b>3,217.7</b>	<b>3,633.0</b>	<b>4,468.6</b>	<b>5,286.9</b>
<b>Total equity and liabilities</b>	<b>7,709.5</b>	<b>7,585.6</b>	<b>7,516.0</b>	<b>8,310.4</b>

Source: RHP

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