

Retail Research	IPO Note
Sector: Alcoholic Beverage	Price Band (Rs): 340 - 357
12 <sup>th</sup> December 2022	Recommendation: Subscribe – Long Term

## SULA VINEYARDS LIMITED

### Company Overview:

Sula Vineyards Ltd is India's largest wine producer and seller. It is the market leader across all 4 price segments - Elite (Rs 950+), Premium (Rs 700-950), Economy (Rs 400- 700) and Popular (< Rs 400). In FY22, the company had an overall market share of ~52% by value in the Indian wine industry. The company has total installed capacity of 145.4 lakh litres, including 127.4 lakh litres capacity in Maharashtra and 18.0 lakh litres capacity in Karnataka.

The company produces 56 different labels of wine at 4 owned and 2 leased production facilities located in Maharashtra and Karnataka. Its bouquet of brands include Sula, Rasa, Dindori, The Source, Satori, Madera, Dia, etc.

As part of Wine Tourism Business, the company owns and operates 2 vineyard resorts (The Source and Beyond by Sula) located at and adjacent to its winery in Nashik, Maharashtra, having total room capacity of 67 rooms. Average room rate was Rs 10,000+ during FY22.

The company has largest wine distribution network in India with presence in 25 states and 6 UTs. It services ~9,000 hotels and restaurants; 13,500 retail touch points and direct to consumer through wine tourism business facilities in Nashik and Bengaluru.

### Key Highlights:

**High barriers of entry:** Wine making involves investment of capital and time for the development of vineyards, an investment in relationships with farmers to ensure supply, expertise in the making of wine, high inventory business model, branding, high import duties, climatic conditions, etc.

**Secured supply of raw material with long-term contracts exclusive to Sula:** The company has access to ~2,521 acres of wine grape vineyards, which is significantly higher than the second largest wine company in the Indian market at close to 460 acres. Out of total acreage, the company has entered into long-term supply arrangements of up to 12 years with contract farmers for ~2,290 acres as of September 30, 2022. Such long-term supply arrangements cover more than 90% of its annual supply of wine grapes.

**Focus on sustainability:** The company has installed over 2MW of solar PV capacity providing it more than 60% of its annual energy needs in FY 2022.

### Valuation:

At the upper price band of Rs 357, Sula Vineyards Ltd is valued at a P/E multiple of 35.7x its TTM earnings and post issue market capitalization of Rs 3,006 crores. Sula Vineyards Ltd is a leader in the growing Indian wine industry with wide variety of product offerings across all price categories, efficient production mechanism and largest wine distribution network. The issue is fairly priced, hence we recommend investors to **Subscribe – Long Term** to the issue at cut-off price.

Issue Details	
Date of Opening	12 <sup>th</sup> Dec 22
Date of Closing	14 <sup>th</sup> Dec 22
Price Band (Rs)	340 – 357
Issue Size (Rs cr)	340 – 357
No. of shares	Fresh Issue : Nil OFS : 2,69,00,530
Face Value (Rs)	2
Post Issue Market Cap (Rs cr)	2,863 – 3,006
BRLMs	Kotak Mahindra Capital Company Ltd CLSA India Pvt Ltd IIFL Securities Ltd
Registrar	KFin Technologies Ltd
Bid Lot	42 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%
Employee Reservation	Nil
Employee Discount	Nil

Objects of Issue	
Particular	(Rs Cr.)
100% OFS; Hence, company won't receive any fund flow from the proposed IPO	[●]

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	2,39,45,864	28.44
Public & Others	6,02,52,884	71.56
<b>Total</b>	<b>8,41,98,748</b>	<b>100.0</b>

Post Issue	No. of Shares	%
Promoter & Promoter Group	2,30,08,661	27.33
Public & Others	6,11,90,087	72.67
<b>Total</b>	<b>8,41,98,748</b>	<b>100.0</b>

Source: RHP, SSL Research

## Risk Factors

- **Regulatory:** Alcoholic beverage 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.
- **Entry barrier in form of import duty:** The company benefits 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.
- **Climate:** Adverse climatic conditions may impact the quality of wine grapes which are the key raw materials for Sula.
- **Change in preference:** Consumers' taste and preference may change and they may not prefer wine in the future. Failure to adapt product offerings to changing market trends and consumer tastes, preferences and spending habits could cause sales to decline, and company may not be able to maintain its competitive position in the alcohol beverage and wine industries.
- Any actual or alleged contamination or deterioration in the quality of products or raw materials could result in legal liability, damage reputation.
- **Seasonality:** The seasonality of the wine industry requires the company 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. Grapes are harvested between December and March and demand for wine tends to be the highest during the months of November through January. This results in high inventory cycle. Inventory cycle for FY22 was 449 days.

## Growth Strategy

- Continuous focus on own brands over third party brands - Sales of own brands accounted 83.9% of revenue from operations in FY22.
- The company intends to continue to leverage its distribution capability to launch new products under Elite & Premium categories to further increase revenue and market share in the Indian wine market.
- Increasing wine awareness and consumption, and penetrating further into Tier-1 and 2 cities in India.
- Effectively use digital media to increase awareness of wine in India.
- To pursue strategic investments and acquisitions to further consolidate the Indian wine industry.
- To continue to expand the wine tourism business.

## Revenue – Product Verticals

Particulars	FY20		FY21		FY22		6M FY22		6M FY23	
	Rs cr	%	Rs cr	%	Rs cr	%	Rs cr	%	Rs cr	%
Wine – Own	332	64	287	69	381	84	132	83	192	86
Wine – 3 <sup>rd</sup> Party	161	31	111	27	36	8	14	9	12	5
Wine Tourism	28	5	18	4	35	8	12	8	20	9
Others	0.3	0	1	0	2	0	1	0	0.9	0
<b>Total</b>	<b>521</b>	<b>100.0</b>	<b>417</b>	<b>100.0</b>	<b>454</b>	<b>100.0</b>	<b>159</b>	<b>100.0</b>	<b>224</b>	<b>100.0</b>

(Source:RHP)

## Revenue - Own Brand Categories

	FY20	FY21	FY22	6M FY22	6M FY23
Particulars	%	%	%	%	%
Elite	18.48	19.87	24.05	23.62	25.14
Premium	49.33	48.71	46.52	46.06	45.39
Economy	15.06	15.79	13.62	14.78	12.62
Popular	17.13	15.63	15.81	15.54	16.85
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

(Source:RHP)

- Contribution of Elite and Premium to overall revenue has increased from 68% in FY20 to 71% in 1HFY23

## Revenue - Volume of Sales of Own Brands and their volume contribution

	FY20	FY21	FY22	6M FY22	6M FY23
Particulars	(No. of Cases)	(No. of Cases)	(No. of Cases)	(No. of Cases)	(No. of Cases)
Elite & Premium	3,93,878	3,30,562	4,42,833	1,53,579	2,14,153
Economy & Popular	4,59,402	3,86,692	4,50,712	1,60,004	2,27,794
<b>Total</b>	<b>8,53,280</b>	<b>7,17,254</b>	<b>8,93,545</b>	<b>3,13,583</b>	<b>4,41,946</b>

(Source:RHP)

- The company is focusing on growing Elite and Premium brands compared to Economy, Popular and 3<sup>rd</sup> party brands. This has resulted in better margins and lower working capital requirements.

## Production Capacity

	FY20	FY21	FY22	6M FY23
Particulars	(Lakh Litres)	(Lakh Litres)	(Lakh Litres)	(Lakh Litres)
Maharashtra	121.53	121.85	127.39	127.39
Karnataka	17.96	17.98	18.01	18.01
<b>Total</b>	<b>139.49</b>	<b>139.83</b>	<b>145.4</b>	<b>145.4</b>

(Source:RHP)

## Capacity Utilisation

	FY20	FY21	FY22	6M FY23
Particulars	%	%	%	%
Maharashtra	66	70	80	54
Karnataka	59	63	73	74
<b>Total</b>	<b>65</b>	<b>69</b>	<b>79</b>	<b>56</b>

(Source:RHP)

- The company's capacity utilization was 79% and 56% during FY22 and 1HFY23 implying the company has enough spare capacity to take care of its growth in medium term

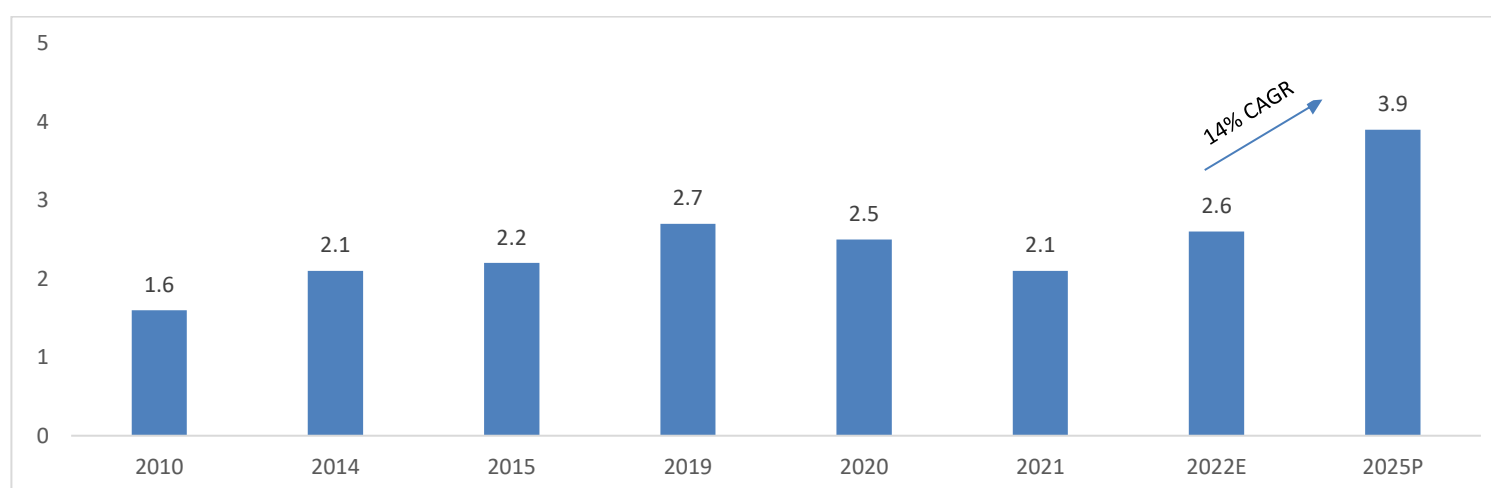
## Industry Overview

### Wines are getting popular as availability of wine improves with rising preference of premium food and drink experiences

Indian wines industry is growing at much quicker pace at 18.3% by value between FY14 to FY19 than the IMFL market growing at 12.3% by value for the same period. The Indian wine market by value reached ~Rs 1,900 Crore in FY20 and then decreased to Rs 1,625 Crore in FY21. This decline is attributed to the lockdowns and restrictions imposed due to COVID-19 on liquor shops and food services industry. The domestic 100% 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% by value. However, it is estimated to go above pre-pandemic levels by the end of FY22 and increase to Rs 3,785 crore in FY25 with a CAGR of 20% from FY22, surpassing the growth rate of the overall alco-beverage industry over the same period CAGR of 1% from FY22 to FY25. 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% to alcohol consumption is more than 50 times that of India.

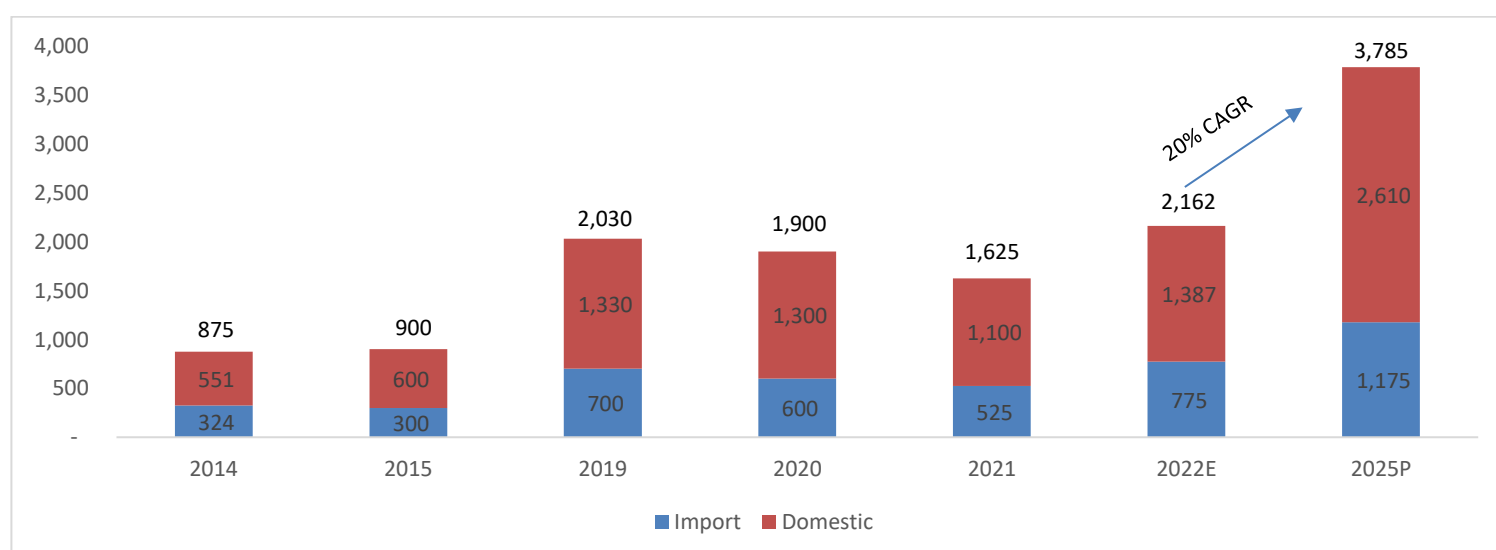
Wine category in India is estimated at 2.6 million cases in FY22 and projected to grow to 3.9 million cases by FY25 with a CAGR of more than 14% in volume.

### Indian wine market in million cases



(Source:RHP)

### Indian Wine Industry Market Size by values (In Rs crores)



(Source:RHP)

## Financial Snapshot

Sula Vineyards Limited					
Particulars (Rs cr)	Pre Issue	Pre Issue	Pre Issue	Pre Issue	Pre Issue
	FY20	FY21	FY22	6M-FY22	6M-FY23
Price Band (Rs)	357.0	357.0	357.0	357.0	357.0
Net Sales	522	418	454	159	224
Total Income	523	422	457	160	226
EBIDTA	49	59	113	29	63
PAT	-16	3	52	5	31
Equity Share Capital	15	15	16	15	16
No of Equity Shares (in cr )	7.5	7.5	7.9	7.7	8.2
Face Value (Rs)	2.0	2.0	2.0	2.0	2.0
EPS (Rs)	-2.1	0.4	6.8	0.6	3.8
CMP (Rs)	357.0	357.0	357.0	357.0	357.0
Cash and Bank	40	52	20	25	23
Debt	368	301	229	262	215
BV per share (Rs)	39.9	40.4	50.3	44.8	55.0
PE(x)	-170.8	892.5	52.6	-	-
P/BV (x)	9.0	8.8	7.1	8.0	6.5
Enterprise Value	3,013	2,941	3,015	2,983	3,105
Mcap/Sales (x)	5.1	6.4	6.2	-	-
EV/Sales (x)	5.8	7.0	6.6	-	-
EV/EBIDTA (x)	61.6	50.1	26.6	-	-
EBITDA Margins (%)	9.4	14.0	25.0	18.1	27.9
Net Margins (%)	-3.0	0.7	11.5	2.8	13.6
ROE (%)	-	1.0	14.9	-	-
ROCE (%)	-	5.7	15.0	-	-
Debt/Equity	1.2	1.0	0.6	0.8	0.5
Net worth	300	305	395	344	449
Net Cash Flow from / (used in) Operating Activities	45	120	87	15	26
Net Cash Flow from / (used in) Investing Activities	-44	-22	-57	-24	-20
Net Cash Flow from / (used in) Financing Activities	33	-94	-61	-17	-3
Free Cash Flow	1	104	42	2	5
Days Sales Outstanding (Days)	115	125	98	-	-
Days Inventory Outstanding (Days)	252	358	449	-	-
Days Payable Outstanding (Days)	130	166	200	-	-
Cash Conversion Cycle (Days)	237	317	347	-	-
Net Working Capital Days (Days)	26	48	65	-	-

(Source: RHP, SSL Research)

## Peer Comparison – FY22

Particulars (Rs cr)	Sula Vineyards Ltd	United Spirits Ltd	Radico Khaitan Ltd	United Breweries Ltd
CMP (Rs)	357	938	1089	1776
Sales	454	31,062	12,471	13,124
EBITDA	116	1,478	410	726
Net Profit	52	811	263	366
PE (x)	35.7*	84.0	55.4	128.3
Market Cap	3,006	68,159	14,557	46,958
EBITDA Margin (%)	25.57	4.8	3.3	5.5
RoE (%)	11.5	16.6	13.2	9.3

\*TTM Basis

(Source: RHP, SSL Research)

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