

### Company Overview

Incorporated in 2003, Sula Vineyards Ltd. is currently India's largest wine producer and seller. The company classifies its business under two major categories i.e. the wine business and the wine tourism business. In the domestic wine industry, Sula Vineyards has emerged as the market leader, with an overall market share of 52% in the grapes wine category in terms of both sales volume and value. Furthermore, Sula is recognized as a market leader in all four price segments of wine i.e. 'Elite' (Rs. 950+), 'Premium' (Rs. 700-950), 'Economy' (Rs. 400- 700), and 'Popular' (<Rs. 400) and also holds a dominating position across wine variants that includes red, white, and sparkling. Presently, Sula has four owned and two leased production facilities in Maharashtra and Karnataka wherein they produce 56 different labels of wine. India's highest-selling wine by value in FY2021, The Sula Shiraz Cabernet, comes under the company's flagship brand "Sula". Other well-renowned brands in the company's product portfolio include "RASA," "Dindori", "The source," "Satori", "Madera" and "Dia". As of FY2021, its domestic business had a presence in over 25 states and 6 union territories where it enjoyed having the largest distribution network compared to its peers with close to 13,000 retail touchpoints. On the global front, the company has extended its footprint in over 20 countries, including Spain, France, Japan, the United Kingdom, and the United States. Apart from this, the company operates two vineyard resorts in Nashik, Maharashtra, as a part of its wine tourism business. As of FY2020, the company was the most visited vineyard in India, drawing around 368,000 people and is also in the list of top ten most followed vineyards in the world.

### Objects of the issue

The IPO proceeds of the issue will be used towards the following purposes:

- ⇒ To carry out the offer for sale.
- ⇒ To achieve the benefits of listing the equity shares on the stock exchanges.

### Investment Rationale

#### High barriers to entry provide cushion to the business both in terms of scale and profitability

Developing and setting up vineyards for wine-making requires high capital expenditure and a long lead time. To ensure value chain integration, wineries enter into long-term contracts with farmers, with a typical term of up to 12 years. As of June 30, 2022, Sula Vineyard had access to approximately 2,521 acres of vineyards, a significantly higher number compared to the second-largest wine company in the Indian market which has around 460 acres. Moreover, long-term supply arrangements and technical support provided by the company coupled with their stellar reputation make them favourable for entering/renewing contracts. This makes it comparatively difficult for new entrants to venture into the Indian wine industry, as they lack that level of scale and backward integration.

#### Strong growth expectations in the industry to provide further tailwinds to the company's growth trajectory

The size of the Indian wine market is comparatively smaller compared to other developed and developing economies. In the overall Indian alcohol industry, wine contribution is merely 1% which creates immense opportunity for the growth of the business. In FY2022, the wine industry in India is estimated at 2.6 million cases which is further projected to grow to 3.9 million cases by FY2025, registering a CAGR of around 14% in volume. Additionally, multiple demand factors like wider acceptance of wine as a social drink, the large share of young population, and increased perception of wine as a healthier alternative to spirits put Sula Vineyards in a favorable spotlight.

### Valuation and Outlook

One of the fastest-growing alcoholic beverage companies in India, Sula Vineyards, grew at a CAGR of 13.3% in FY2011-22 period. The company has also been successful in consistently raising the prices of its wines by an annual average of 6% for the FY2019-22 period. Moreover, with Sula gaining a higher demand for its 'Elite' and 'Premium' categories, it puts the company in a sweet spot for margin expansion. Going forward, the company aims to focus on its brands more than the import and distribution of third-party brands. To further increase its brand visibility, it continues to expand its wine tourism business. In FY2022, the company reported a healthy ROCE ratio of 20.86% and a low debt to equity ratio of 0.58. On the upper end of the price band, the issue is valued at a P/E of 52.6x based on FY2022 earnings which we feel is fairly priced. Hence, we recommend a "SUBSCRIBE" rating for the benefit of listing gains.

Issue Details	
Offer Period	12 <sup>th</sup> Dec-14 <sup>th</sup> Dec, 2022
Price Band	Rs.340 to Rs.357
Bid Lot	42
Listing	BSE & NSE
Issue Size (no. of shares in mn)	26.90
Issue Size (INR. in bn)	9.60
Face Value	2

Issue Structure	
QIB	50%
NIB	15%
Retail	35%
	Kotak Mahindra Capital Company Limited
BRLM	CLSA India Private Limited
	IIFL Securities Limited
Registrar	KFin Technologies Ltd

Particulars	Pre Issue %	Post Issue %
Promoter and	27.15	26.06
Promoter Groups	1.29	1.29
Public	71.56	72.65
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



# Sula Vineyards Ltd

## Income Statement (Rs in million)

Particulars	H1FY23	FY22	FY21	FY20
<b>Revenue</b>				
Revenue from Operations	2,241	4,539	4,180	5,216
Other Income	17	28	36	16
<b>Total Revenue</b>	<b>2,258</b>	<b>4,567</b>	<b>4,215</b>	<b>5,232</b>
<b>Expenses</b>				
Cost of Materials Consumed	206	1,114	669	1,093
Purchases of Stock in Trade	117	204	752	1,325
Change in inventory of finished goods,work in progress and stock-in-Trade	165	(147)	154	(143)
Employee benefit expenses	371	653	555	657
Selling,distribution and marketing expense	246	445	467	525
Excise duty	118	295	320	364
Other expenses	392	841	653	906
<b>Total Operating Expenses</b>	<b>1,615</b>	<b>3,406</b>	<b>3,570</b>	<b>4,727</b>
<b>EBITDA</b>	<b>643</b>	<b>1,161</b>	<b>645</b>	<b>505</b>
Depreciation, amortization and impairment expense	126	236	257	350
<b>EBIT</b>	<b>517</b>	<b>925</b>	<b>388</b>	<b>155</b>
Finance costs	105	229	334	329
Exceptional Item	-	-	22	-
<b>PBT</b>	<b>413</b>	<b>695</b>	<b>32</b>	<b>(174)</b>
Current tax	113	165	16	4
Current tax - for earlier periods	-	-	-	-
Deferred Tax charge	(6)	9	(15)	(19)
MAT Credit reversed/(availed)	-	-	-	-
<b>Total tax</b>	<b>107</b>	<b>174</b>	<b>2</b>	<b>(15)</b>
<b>PAT</b>	<b>305</b>	<b>521</b>	<b>30</b>	<b>(159)</b>
<b>Diluted EPS</b>	<b>3.8</b>	<b>6.8</b>	<b>0.4</b>	<b>(2.1)</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (Rs in million)

Particulars	H1FY23	FY22	FY21	FY20
Cash Flow from operating activities	263	874	1,195	447
Cash flow from investing activities	(197)	(568)	(217)	(440)
Cash flow from financing activities	(31)	(613)	(945)	334
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>35</b>	<b>(306)</b>	<b>34</b>	<b>340</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>102</b>	<b>408</b>	<b>375</b>	<b>34</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>137</b>	<b>102</b>	<b>408</b>	<b>375</b>

Source: RHP, BP Equities Research



## Sula Vineyards Ltd

## Balance Sheet (Rs in million)

Particulars	H1FY23	FY22	FY21	FY20
<b>Equity and Liabilities</b>				
Share Capital	163	157	151	150
Other Equity	4,329	3,795	2,897	2,849
<b>Net worth</b>	<b>4,492</b>	<b>3,953</b>	<b>3,047</b>	<b>2,999</b>
Non controlling interest	-	-	-	24
<b>Total Equity</b>	<b>4,492</b>	<b>3,953</b>	<b>3,047</b>	<b>3,023</b>
Borrowings	412	481	591	788
Lease liabilities	78	62	100	187
Provisions	31	20	100	81
Deferred tax liabilities (net)	162	169	160	176
<b>Total Non Current Liabilities</b>	<b>683</b>	<b>732</b>	<b>951</b>	<b>1,232</b>
<b>Current Liabilities</b>				
Borrowings	1,734	1,809	2,421	2,894
Lease liabilities	46	47	39	58
Trade Payables				
(a) total outstanding dues of micro enterprises and small enterprises	15	5	10	11
(b) total outstanding dues of creditors other than micro enterprises and small enterprises	374	670	574	816
Other Financial Liabilities	170	142	145	173
Provisions	30	27	13	19
Other current liabilities	163	187	168	83
Current tax liabilities (net)	1	15	13	-
Liabilities of a disposal group classified as held for sale	-	-	136	-
<b>Total Current Liabilities</b>	<b>2,534</b>	<b>2,901</b>	<b>3,518</b>	<b>4,055</b>
<b>Total liabilities</b>	<b>3,218</b>	<b>3,633</b>	<b>4,469</b>	<b>5,287</b>
<b>Total Equity and Liabilities</b>	<b>7,710</b>	<b>7,586</b>	<b>7,516</b>	<b>8,310</b>
<b>Assets</b>				
Property, plant and equipment	3,412	3,444	3,040	3,263
Right-of-Use assets	108	93	125	237
Capital work in Progress	119	10	1	1
Goodwill	9	9	0	27
Other intangible assets	64	67	12	20
Investments	0	0	0	0
Loans	21	19	11	11
Other financial assets	380	210	218	189
Deferred tax assets(net)	-	-	-	0
Non current tax assets	2	2	1	88
Other non current assets	78	27	37	44
<b>Total Non current assets</b>	<b>4,192</b>	<b>3,880</b>	<b>3,447</b>	<b>3,879</b>
Inventories	1,473	1,623	1,439	1,713
Investments	-	-	-	1
Trade Receivables	1,025	1,094	1,236	1,517
Cash and cash equivalents	137	102	408	375
Bank balances other than cash and cash equivalents	88	94	110	28
Loans	15	12	11	24
Other Financial Assets	703	736	469	652
Other current assets	77	45	75	121
Non current assets and assets of a disposal group classified as held for sale	-	-	321	-
<b>Total Current Asset</b>	<b>3,518</b>	<b>3,705</b>	<b>4,069</b>	<b>4,431</b>
<b>Total Assets</b>	<b>7,710</b>	<b>7,586</b>	<b>7,516</b>	<b>8,310</b>

Source: RHP, BP Equities Research

**Key Risks**

- ⇒ Adverse climatic conditions may impact the quality of wine grapes which are the company's key raw materials
- ⇒ The Indian wine market is relatively young and faces imminent challenges from the consumption of alcohol and spirits which is prominently high compared to wine consumption in India
- ⇒ Advertising of alcoholic beverages products is restricted in India thus the company is unable to advertise its products

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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