



**SULA**  
VINEYARDS

**SMC Ranking**

★ ★ ☆ ☆ ☆ (2/5)

### Issue Highlights

Industry	Breweries & Distilleries
Offer for sale (Shares)	26,900,530
<b>Net Offer to the Public</b>	<b>26,900,530</b>
Issue Size (Rs. Cr.)	914-960
Price Band (Rs.)	340-357
Offer Date	12-Dec-22
Close Date	14-Dec-22
Face Value	2
Lot Size	42

### Issue Composition

	In shares
Total Issue for Sale	26,900,530
QIB	13,450,265
NIB	4,035,080
Retail	9,415,186

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	28.44%	27.33%
QIB	52.47%	42.35%
NIB	15.40%	15.45%
Retail	3.69%	14.87%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Objects of the Issue

The company will not receive any proceeds from the Offer and all such proceeds will go to the Selling Shareholders.

#### Book Running Lead Manager

- Kotak Investment Banking
- CLSA India Private Limited
- IIFL Securities Limited

#### Name of the registrar

- KFin Technologies Limited

### About the company

Incorporated in 2003, Sula Vineyards Limited is the India's largest wine producer and seller as of March 31, 2022. The company also distributes wines under a bouquet of popular brands including "RASA," "Dindori", "The source," "Satori", "Madera" & "Dia" with its flagship brand "Sula" being the "category creator" of wine in India. The company's business is 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"). Currently, the company produces 56 different labels of wine at four owned and two leased production facilities located in the Indian states of Maharashtra and Karnataka.

### Strength

**High barriers of entry:** The wine market in India will remain concentrated, with high barriers to entry due to the nature of the product, as well as trade barriers prevalent in the alcoholic beverage market. Given the long lead time and high capital expenditure required to develop and set up vineyards, it is difficult for new entrants to venture into the Indian wine industry and secure a consistent and steady supply source for high quality wine grapes.

**Established market leader in the Indian wine industry with the leading brand "Sula":** The Company 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. The company is among the top 10 most followed vineyards in the world, having a large following on social media.

**Largest wine producer in India with the widest and innovative product offering supported by an efficient production mechanism:** The company is the clear market leader in the Indian domestic wine industry, with its market share by value being 52 per Cent in Fiscal 2022. The company been a consistent market leader in the Indian wine industry in terms of sales volume as well as value (on the basis of total revenue from operations) since Fiscal 2009 crossing 50 per cent market share by value in the domestic 100 per cent grapes wine market in Fiscal 2012. The 'Premium' and 'Elite' wine categories contributed approximately 61 per cent by value and 40 per cent by volume of the Indian domestic 100 per cent grape wine market in Fiscal 2020 and are projected to grow at a CAGR of 19.7 per cent by volume in the period between Fiscal 2022 to Fiscal 2025 as compared to overall category growth of approximately 15.8 per cent during the same period. Since the launch of its first wines in the year 2000, it has redefined the production and distribution of wine in India being instrumental in laying the bedrock for the growth of the local wine industry in India.

**Largest wine distribution network and sales presence:** As of September 30, 2022, it 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. The company has managed to build the largest distribution network among wine companies in India, with close to 13,000 retail touch-points across the country in 2021. The company also has a strong direct-to-consumer ("D2C") selling channel primarily through the Wine Tourism Business facilities in Nashik and Bengaluru. Its 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 touch-points and over 9,000 hotels, restaurants and caterers) as of March 31, 2022. 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.

**Secured supply of raw material with long-term contracts exclusive to Sula:** As of June 30, 2022, it has 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.

**Leader and pioneer of the wine tourism business in India:** The company has been a pioneer of wine tourism in India, which has led to a strong D2C presence. It believes with its combination of resorts, tasting rooms and restaurants, it has helped to create a unique wine culture in India. As part of its Wine Tourism Business, it 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.

**Early adoption and focus on sustainability:** Sustainability is a key focus area for its company 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. Its sourcing strategy and strong relationships ensure consistent quality, competitive pricing and assured quantity in line with the growing demand for its products.

## Strategy

**Continuous focus on its Brands:** The company’s main strategy is to continue focusing on its Own Brands over Third-Party Brands that it imports and distributes. Sales of its own Brands accounted for 85.49%, 82.75% and 83.91% of the revenue from operations for the 6 months period ended September 30, 2022 and September 30, 2021, and Fiscal 2022, respectively, as compared to 63.57% in Fiscal 2020, when the company had a significant Third Party Brand distribution business, contributing 30.96% of the revenue from operations during the same period.

**Focus on premiumization of the product portfolio:** Sula intends to continue to leverage its distribution capability to launch new products under these categories to further increase their revenue and market share in the Indian wine market. To this end, the company has launched “The Source” brand with 4 labels in Fiscal 2018, 2019, 2020 and 2022, and undertook a rebranding of its “RASA” brand in Fiscal 2022. The company launched a total of 7 labels under its brands, Sula, the Source, RASA and Dindori, in the last 5 Financial Years, which have all been in the ‘Elite’ category and together were able to acquire a market share of 9% in the ‘Elite’ category by the end of Fiscal 2021. The company has been successful in consistently raising the prices of its wines by an annual (fiscal) average of 6% from March 31, 2019 to March 31, 2022.

**Increasing wine awareness and consumption, and penetrating further into Tier-1 and 2 cities:** The majority of wine consumers are from the top urban centres in India, with Mumbai, Bengaluru, Delhi NCR, Pune, and Hyderabad contributing more than 70% of the overall market. Its 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. Additionally, with ‘Dia’. The Company’s distribution network enables it to increase the availability and visibility of its brands. The company 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.

**Effectively use digital media to increase awareness of wine in India:** The company’s 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 its Company’s or its own social media channels. Its strategy of engaging popular influencers with significant followings on social media platforms such as Instagram helps them leverage its extensive network to amplify its message, taking awareness of wine to a wider audience.

**Pursue strategic investments and acquisitions to further consolidate the Indian wine industry:** Sula has demonstrated record in acquiring and successfully integrating companies and teams over the last few years, with 2 significant acquisitions in the last 5 years. Through these acquisitions, the company seeks to consolidate its position further in the Indian wine market, increasing its scale and market share. The company's acquisitions of the brands and assets of Heritage Winery and York Winery in Fiscals 2017 and 2022, respectively, are testament to this. In particular, the acquisition of Heritage was strategic, providing Sula with its first owned manufacturing facility in Karnataka, allowing it to avail the benefit of significantly lower duties on the sale of its wines in Karnataka and offering growth potential to increase its Wine Tourism Business.

### Risk factor

- Consumers' taste and preference may change.
- The company relies heavily on its brand portfolio and the success of its business strategy depends on its ability to enhance its brands.
- Its revenue from operations is dependent upon a limited number of customers.
- Its processing units, raw materials and business operations are primarily concentrated in western and south-western parts of India.
- The supply and distribution infrastructure and network to sell its products is subject to disruption.

### Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Radico Khaitan	3087.91	245.77	18.39	58.10	6.79	157.45	2.00	1068.45	14282.37
United Spirits	10813.20	1300.60	15.65	59.75	11.77	79.43	2.00	935.15	67951.62
United Breweries	7412.98	550.33	20.81	83.88	11.67	149.55	1.00	1745.45	46149.70
Sula Vineyards Limited**	448.14	61.01	7.25	49.27	7.60	46.94	2.00	357.00	3005.90

\* Peer companies financials are TTM based.

\*\* FY23 Estimated Annualised Financials

### Valuation

Considering the P/E valuation on the upper price band of Rs.357, EPS and P/E of Estimated Annualised FY2023 are Rs.7.25 and 49.27 multiple respectively and at a lower price band of Rs. 340, P/E multiple is 46.92. Looking at the P/B ratio on the upper price band of Rs.357, post issue book value and P/B of FY23 are Rs. 46.94 and 7.60 multiple respectively and at a lower price band of Rs. 340 P/B multiple is 7.24 . No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

### Industry Outlook

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. 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 rangebound 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.

## Outlook

Sula Vineyards Ltd is India's largest wine producer and seller. The company is an established market leader in the Indian wine industry with the leading brand "Sula". The company stands to benefit largely from the current high import duties on international wines. The wine industry in India is seasonal. In addition to that, the wine tourism business is also cyclical in nature and thus can result in fluctuations in cash flow for the company. The IPO is entirely an offer for sale (OFS) aggregating to 26,900,532 equity shares by the promoter, investors and other shareholders. It means money raised through the issue won't go to the company.

## An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	12-December-22
BID/ISSUE CLOSES ON	14-December-22
Finalisation of Basis of Allotment with the Designated Stock Exchange	19-December-22
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	20-December-22
Credit of Equity Shares to demat accounts of Allottees	21-December-22
Commencement of trading of the Equity Shares on the Stock Exchanges	22-December-22

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-22 (6 Months)	Period ended 31-Mar-22 (12 Months)	Period ended 31-Mar-21 (12 Months)
Revenue from operations	224.07	453.92	417.96
Total expenditure	161.45	340.63	357.00
<b>Operating Profit</b>	<b>62.62</b>	<b>113.29</b>	<b>60.96</b>
OPM%	27.94	24.96	14.58
Other Income	1.69	2.78	3.55
<b>PBDIT</b>	<b>64.31</b>	<b>116.07</b>	<b>64.51</b>
Depreciation	12.58	23.61	25.70
<b>PBIT</b>	<b>51.72</b>	<b>92.46</b>	<b>38.81</b>
Interest	10.47	22.92	33.39
<b>Restated Profit before tax</b>	<b>41.26</b>	<b>69.54</b>	<b>5.43</b>
Exceptional item	0.00	0.00	2.24
<b>Profit &amp; Loss before Share of Post-acquisition Profit of Associate</b>	<b>41.26</b>	<b>69.54</b>	<b>3.19</b>
Tax	10.75	17.40	0.17
<b>PAT</b>	<b>30.51</b>	<b>52.14</b>	<b>3.01</b>

**Balance sheet is on next page**



## RANKING METHODOLOGY

<b>WEAK</b>	★
<b>NEUTRAL</b>	★★
<b>FAIR</b>	★★★
<b>GOOD</b>	★★★★
<b>EXCELLENT</b>	★★★★★

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