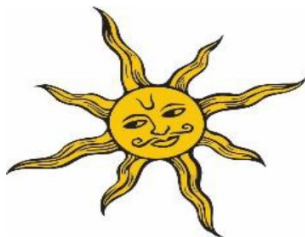




Sula Vineyards Limited is India's largest wine producer with market leadership both in terms of value and volume across Elite, Premium, Economy (INR 400-700) and Popular (<400) and has a higher share of 61% by value in 'Elite'(INR 950+) and 'Premium'(INR 700-950) categories. Its popular brands include "RASA", "Dindori", "The source", "Satori", "Madera" and "Dia". The company owned brands contribution has been on the rise from 65% to 80%+ and would continue to be so as highlighted by the management. Considering the higher share of high margin segments in the revenues and focus on owned brand, the company would be able to expand its margin going forward. Its strong position in a high barrier and fast growing segment would help it to gain further in terms of sales in the long run. We recommend to SUBSCRIBE for listing gains.



SULA VINEYARDS LIMITED

About Company

Sula Vineyards is India's largest wine producer and seller. They have been a consistent market leader in the Indian wine industry in terms of sales volume and value since Fiscal 2009 crossing 50% market share by value in the domestic 100% grapes wine market in Fiscal 2012. Their business can be broadly classified under two categories (i) the production of wine, the import of wines and spirits, and the distribution of wines and spirits (the "Wine Business"); and (ii) the sale of services from ownership and operation of wine tourism venues, including vineyard resorts and tasting rooms (the "Wine Tourism 195 Business").

Issue details

Price Band (in ₹ per share)	340-357
Issue size (in ₹ Crore)	915-960
Fresh Issue (in ₹ Crore)	NIL
OFS (in ₹ Crore)	915-960
Issue open date	12-12-2022
Issue close date	14-12-2022
Tentative date of Allotment	19-12-2022
Tentative date of Listing	22-12-2022
Total number of shares (lakhs)	269.01
No. of shares for QIBs (50%) (lakhs)	134.51
No. of shares for NII (15%) (lakhs)	40.35
No. of shares for retail investors (35%) (lakhs)	94.15
Minimum order quantity	42
Face value (in ₹)	2.00
Amount for retail investors (1 lot)	14,280-14,994
Maximum number of shares for Retail investors at lower Band	588(14 Lots)
Maximum number of shares for Retail investors at upper band	546(13 Lots)
Maximum amount for retail investors at lower Band- upper band (in ₹)	1,99,920-1,94,922
Exchanges to be listed on	BSE, NSE

Akshay R. Pradhan
akshay@canmoney.in | Tel 022-43603861



Promoters

1. Rajeev Samant

Objective of the Offer

1. Sale of shares of upto 26,900,530 by the promoter and investor group

**Brief Financials**

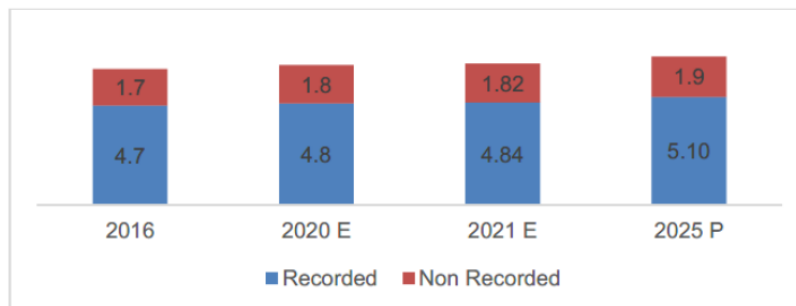
Particulars (Rs. Cr)*	SEP 22 (6M)	FY22	FY21	FY20
Share Capital	16.32	15.72	15.08	15.04
Net Worth	449.19	395.26	304.74	299.95
Revenue from Operation	224.07	453.92	417.96	521.63
PBT	41.26	69.54	3.19	(17.40)
PAT	30.51	52.14	3.01	(15.94)
Basic EPS(Rs)	7.52^	6.79	0.40	(2.09)
NAV	55.05	50.29	40.42	39.88
P/E#	47.47	52.58	NA	NA
P/B #	6.49	7.10	NA	NA

Source: RHP # Calculated at the upper price band, * Restated consolidated financials ^Annualised EPS

Industry Review**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 litres 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 litres.

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



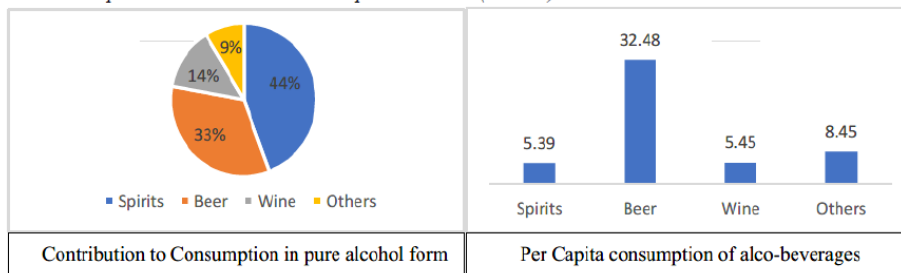
(Source: WHO: Global status report on alcohol and health 2018, Technopak Analysis)

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.

Industry Review

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

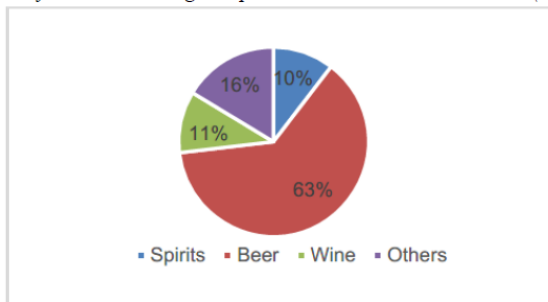


(Source: Technopak Analysis)

Note:

(1) Per capita consumption of alcohol as per actual alcohol content of each category.

Per Capita consumption of alcoholic beverages as per alcohol concentration CY 2021 (total 51.8 litres)



(Source: Technopak Analysis)

Note:

(1) Data converted from pure alcohol data to average concentration for each category.

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

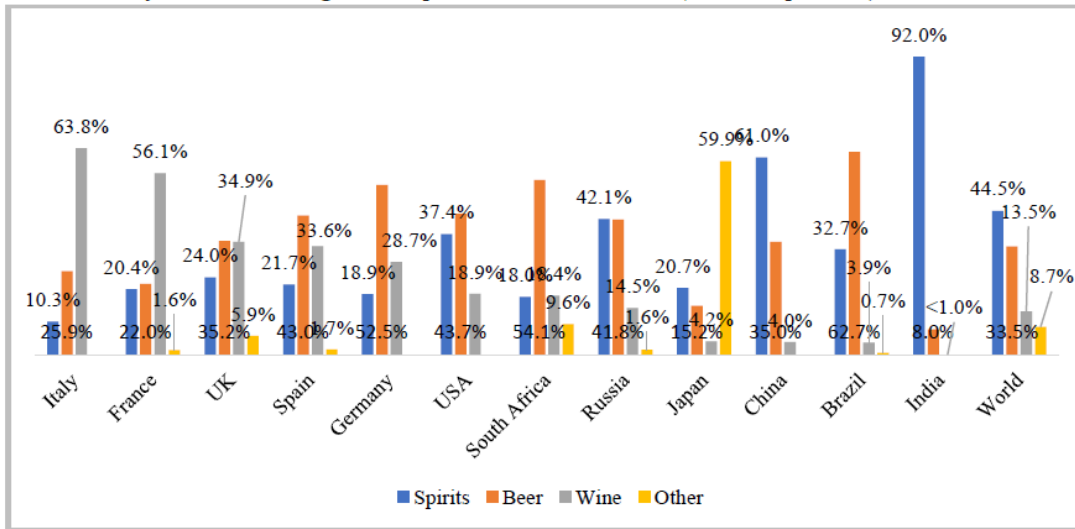
India’s per capita consumption for wine is less than 100 ml. The contribution of wine to overall alcohol consumption in India is less than 1 per cent. against the world average of close to 13 per cent. Consumption of wine is higher in developed countries which is as high as close to 30 per cent. in Europe. 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.



Industry Review

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



(Source: Technopak Analysis)

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

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

(Source: Technopak Analysis)

Note:

- (1) Per capita consumption calculated from pure alcohol, taking into consideration alcohol concentration of respective categories as a factor
- (2) Data projected basis WHO data up to 2019

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

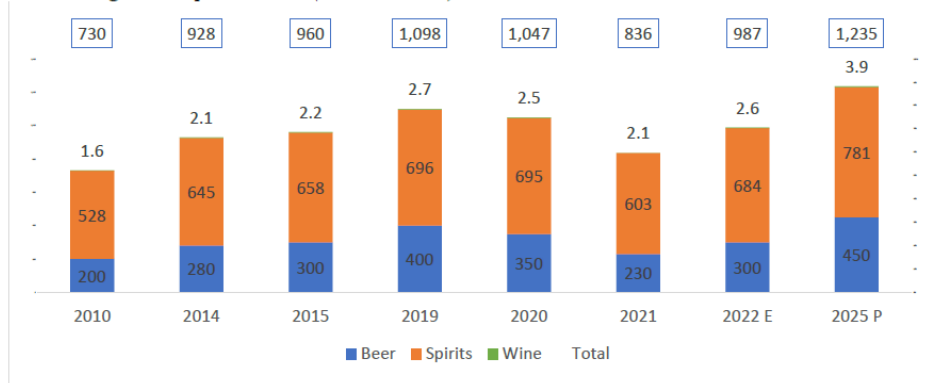
The Indian alcohol industry size is estimated at more than one billion cases per annum in FY 2020. Recorded per capita consumption of pure alcohol has moved from 0.9 liters to 2.7 liters for the period between 2000 to 2010 with a CAGR of close to 12 per cent. Recorded per capita consumption of pure alcohol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



Industry Review

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



(Source: Technopak Analysis)

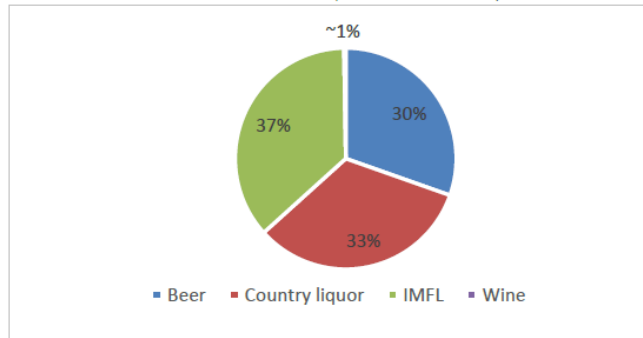
Note:

(1) Data projected basis Multiple State Excise Dept, Annual Reports WHO data.

CAGR	Wine	Spirits	Beer	Total
2010 – 2015	6.1%	4.5%	8.4%	5.6%
2014 – 2019	5.4%	1.5%	7.4%	3.4%
2022E – 2025P	14.3%	4.5%	14.5%	7.7%

(Source: Technopak Analysis)

Alcohol Consumption in India in million cases FY 2022 (987 million cases)



(Source: Technopak Analysis)

Note:

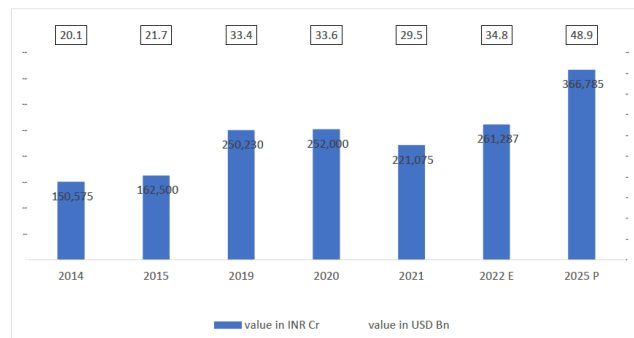
(1) Data projected basis Multiple State Excise Dept, Annual Reports WHO data.

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.



(Source: Technopak Analysis)

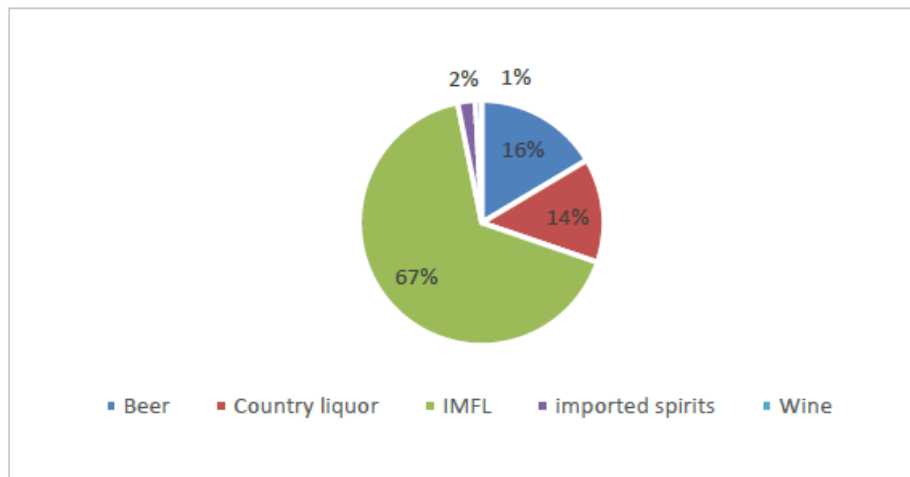
Notes:

(1) Data projected basis annual reports Multiple State Excise Dept.
 (2) 1 U.S.\$ = INR 75



Industry Review

Indian Alco-beverage market in INR Crore FY 2022 (INR 2,61,287 Crore)(~34.8 U.S.\$ billion)



(Source: Technopak Analysis)

Notes:

- (1) Data projected basis annual reports Multiple State Excise Dept
- (2) 1 U.S.\$ = INR75

Contribution of alco-beverages in consumption as per alcohol concentration for CY 2021 (volume in per cent.)

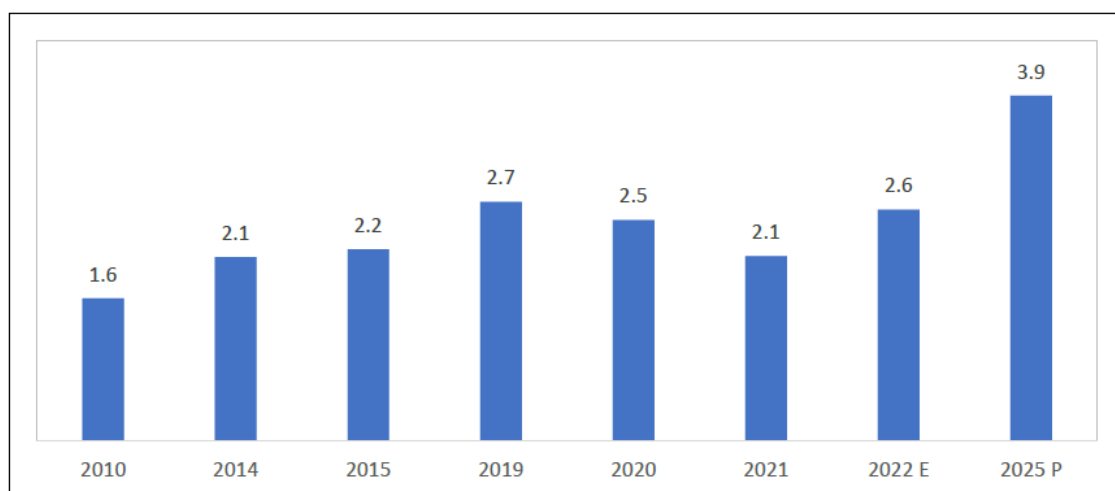
Country	Spirits	Beer	Wine	Other	All types
Germany.....	3.5%	78.6%	17.9%		100.0%
Japan	3.3%	19.2%	2.2%	75.4%	100.0%
Spain	4.4%	70.0%	22.8%	2.8%	100.0%
UK.....	5.1%	60.0%	24.8%	10.1%	100.0%
France.....	5.1%	44.4%	47.3%	3.1%	100.0%
South Africa.....	3.1%	73.5%	10.4%	13.1%	100.0%
USA.....	8.3%	77.7%	14.0%		100.0%
Italy.....	2.4%	48.1%	49.5%		100.0%
Brazil.....	5.9%	90.7%	2.3%	1.0%	100.0%
Russia.....	9.6%	76.4%	11.0%	2.9%	100.0%
China.....	16.9%	77.4%	3.7%	2.0%	100.0%
India.....	59.0%	41.0%	<1.0%		100.0%
World Average*.....	10.4%	62.7%	10.5%	16.3%	100.0%

(Source: Technopak Analysis)

Note:

- (1) Data derived from per capita recorded alcohol consumption from WHO.

Indian wine market in million cases (Data for FY)



(Source: Technopak Analysis)

Note:

- (1) Data projected basis reports from WHO, OIV, import data.



Industry Review

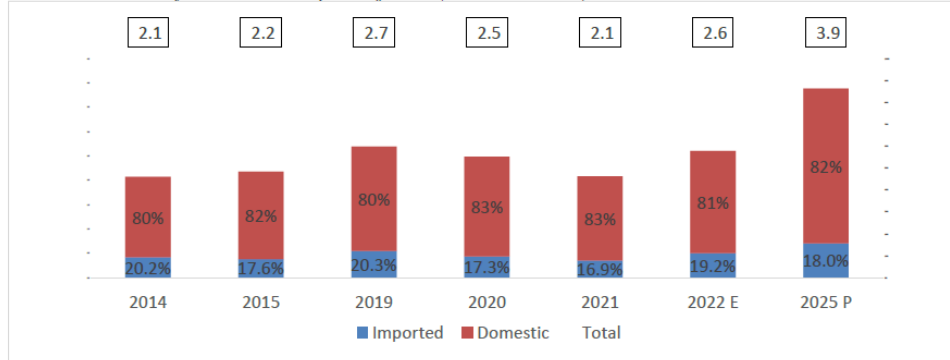
Value	2014-19	2022-25
CAGR	5.4%	14.3%

(Source: Technopak Analysis)

Note:

(1) Data projected from OIV and USDA.

Indian Wine Industry Domestic vs Imported for FY (In million Cases)

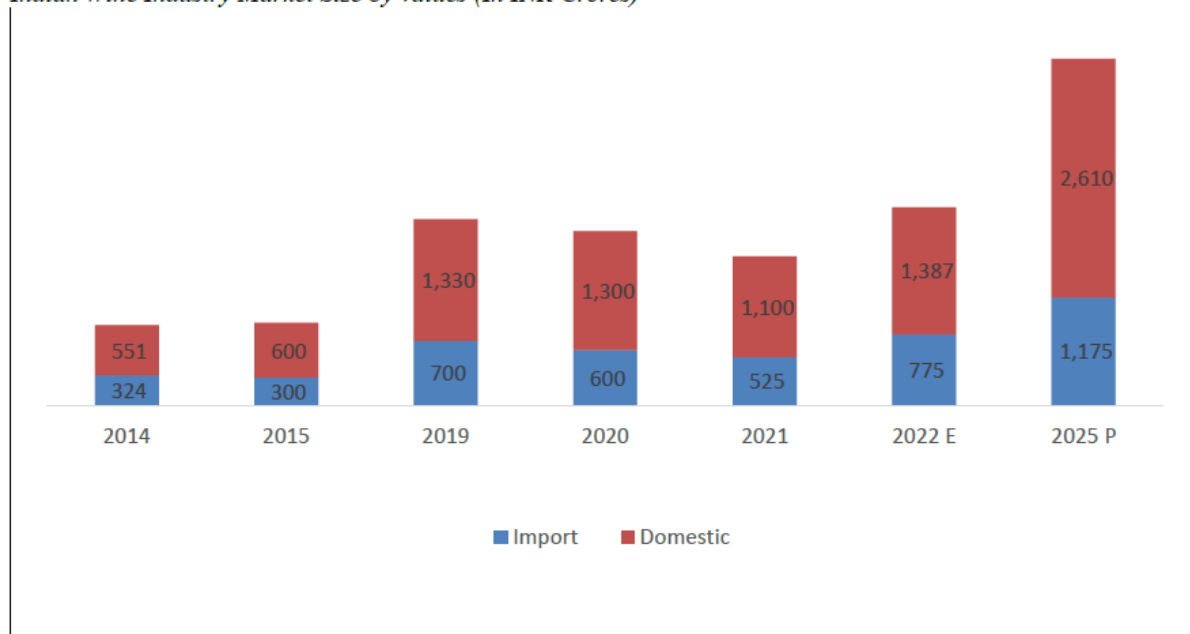


(Source: Technopak Analysis)

Note:

(1) Data projected from OIV, USDA, DGFT.

Indian Wine Industry Market Size by values (In INR Crores)



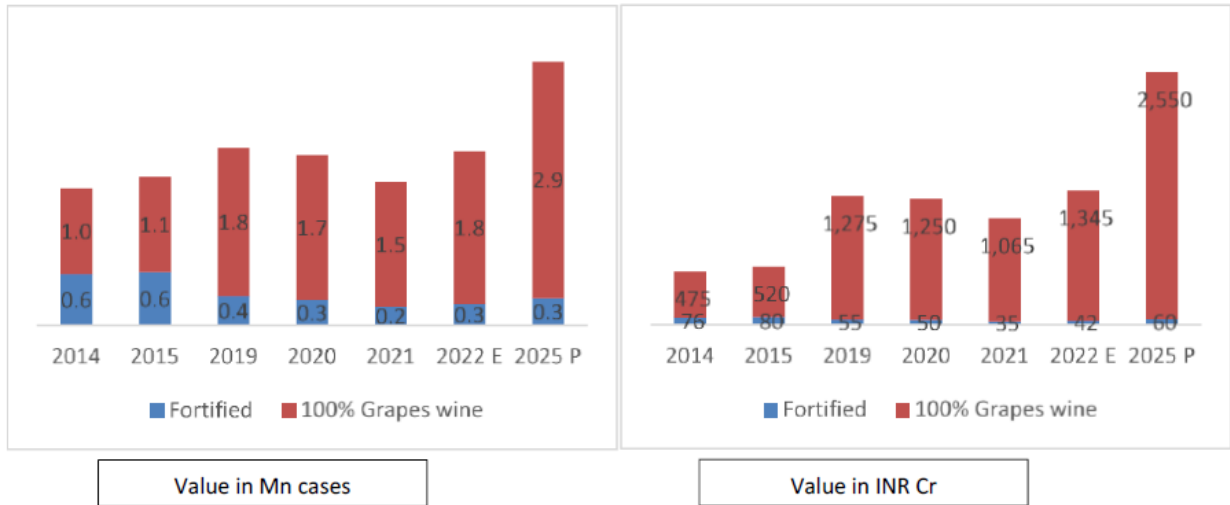
CAGR	2014-19	2022-25
Imported	16.7%	14.9%
Domestic	19.3%	23.4%
Overall	18.3%	20.5%

(Source: Technopak Analysis)



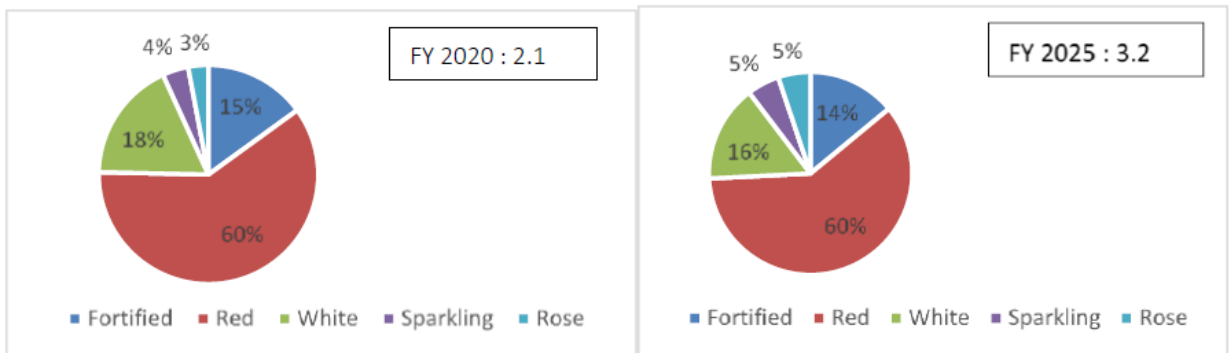
Industry Review

Mixed fortified wines vs 100 per cent. grapes wine (Domestic wines market overview)



(Source: Technopak Analysis)

Types of Domestic Wine (per cent. share by volume in million cases)

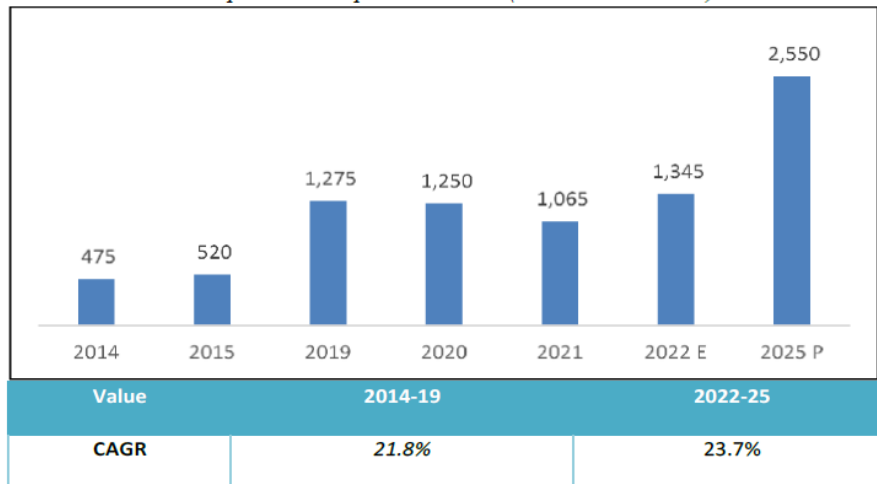


(Source: Technopak Analysis)

Notes:

- (1) Rounded off to nearest decimal.
- (2) Does not include imported wines.

Exhibit 80: Indian domestic 100 per cent. Grape Wine market (Value in INR Crores)



(Source: Technopak Analysis)



Competitive Strengths

High barriers of entry -

The wine market in India will remain concentrated, with high barriers to entry due to the nature of the product, as well as trade barriers prevalent in the alcoholic beverage market. Wine making involves the investment of capital and time for the development of vineyards, an investment in relationships with farmers to ensure supply, as well as expertise in the making of wine. The wine business has a high inventory business model compared to other alcoholic beverages, and one of the unique attributes on the supply side is the annual harvesting season, which increases the demanding nature of the wine making business. The wine value chain process is long, and wine may require a few years before it is ready to be bottled. Wine grapes require significant work by farmers, who spend many years waiting for the first harvest. Each state in India establishes its respective alcohol policy, including with respect to procurement, pricing, distribution and any restrictions on its use. Winemaking requires expertise, from identifying the right type of soil and grapes, the quality of grapes, to expertise in manufacturing and marketing the product. Branding – both direct and indirect advertising of alcohol is prohibited in India, and it can be advertised only at point of sale. High import duties, freight and logistics costs – imported wines face high import duties as well as freight and logistic barriers that render them much more expensive relative to locally produced wines. Climatic conditions – grapes are a temperate crop, and the tropical climatic conditions in India require extensive research and development to produce good quality wines. Vineyard plantation – the plantation of vineyards requires a long track record, trust and reputation among farmers, which they have with their proven track record successfully built over the last two decades. Planting a vineyard in India, on an average, requires a minimum commitment of 12 years by the grower. 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 to the Indian wine industry and secure a consistent and steady supply source for high quality wine grapes. Availability of skilled personnel – with no national training institute for winemaking in the country, the number of skilled winemakers is very limited in India

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

Since the incorporation in 2003, they have built a strong network across key markets, which gives us a competitive advantage over other wine players (Source: Technopak Report). 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 (Source: Technopak Report). In addition to “Sula”, they own the “RASA”, “The Source”, “Dindori”, “York”, “Satori”, “Mosiatic”, “Madera”, “Samara” and “Dia” brand names, among others, which are strong individual brands with distinct identities. They classify the brands manufactured, bottled and sold by their Company as “Own Brands” (as of the date of this Red Herring Prospectus our Own Brands include “Sula”, “RASA”, “The Source”, “Dindori”, “York”, “Satori”, “Mosiatic”, “Madera”, “Samara”, “Heritage”, “Port Gold” and “Dia”). They have consistently gained market share (on the basis of our total revenue from operations) from 33 per cent in Fiscal 2009 in 100 percent grapes wine category to 52 percent in value in Fiscal 2022 (Source: Technopak Report).

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

They are the clear market leader in the Indian domestic wine industry, with market share by value being 52 percent. In Fiscal 2022 (Source: Technopak Report). They have been a consistent market leader in the Indian wine industry in terms of sales volume as well as value (on the basis of total revenue from operations) since Fiscal 2009 crossing 50 per cent. market share by value in the domestic 100 per cent. grapes wine market in Fiscal 2012 (Source: Technopak Report). 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 (Source: Technopak Report). Since the launch of their first wines in the year 2000, they have redefined the production and distribution of wine in India being instrumental in laying the bedrock for the growth of the local wine industry in India. Countries which have non-native wine drinkers but have created a strong local wine industry, such as China, have seen a significant growth in the per capita consumption of wine from 170 millilitres in 1980 to cross one liter in the year 2000 (Source: Technopak Report). They aim to tap the potential of the under penetrated wine industry in India with their offering of the widest product range in the Indian wine market.



Competitive Strengths

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

Risk Factors

Industry subject to excise regime with changing laws-

The legal, regulatory and policy environment in which they operate is evolving and subject to change. Their business and financial performance could be adversely affected by unfavourable changes in, or interpretations of existing laws, or the promulgation of new laws, rules and regulations applicable to them and their business. Such laws include prohibition laws, licensing requirements, labelling restrictions and restrictions on advertising.

Adverse climatic conditions -

While the manufacturing operations enable them to maintain the quality of products and they have not faced any significant impact on the quality of grapes procured due to climate change, they cannot assure you that adverse climatic conditions will not impact the quality of grapes procured or products manufactured in the future. This is because the establishment of new vineyards take more than two years, and any disruption caused by adverse climatic conditions could disrupt thy supply of grapes, hence adversely and materially affect their business.

Supply disruption in raw materials–

They do not have formal arrangements to purchase some of packaging materials and consumables with suppliers. If suppliers for any particular packaging materials or consumables are unable or unwilling to meet their requirements or estimates fall short of the demand, they could suffer shortages or cost increases. While the price changes in the past are not attributable directly to changes in the cost of packaging materials or consumables, there is no assurance that they will not increase the selling price of products in case of an unexpected increase in the prices of packaging materials or consumables in the future. Their contracted wine grape vineyards are geographically situated across the states of Maharashtra and Karnataka in India. They could suffer from shortages or cost increases if the third-party sellers, especially farmers, fail to fulfil their obligations under the contract farming agreements to supply them with grapes. This is because grapes are key raw materials for business operations, and a majority of grapes are procured from third-party sellers through contracts. They are reliant on these third-party sellers to supply grapes for business operations.



Peer Comparison

Name of the Company	Total Income (Crores)	FV	Basic EPS	NAV	P/E *	P/B*	ROE	ROCE
Sula Vineyards Ltd.	453.92	2.00	6.53	55.34	54.67	6.45	11.45%	18.30%
United Spirits Ltd.	31061.80	2.00	11.68	67.09	80.05	13.94	16.63%	24.20%
Radico Khaitan Ltd.	12470.50	2.00	19.70	149.46	54.21	7.14	13.18%	16.40%
United Breweries Ltd.	13123.92	1.00	13.82	148.99	126.34	11.72	9.29%	13.10%

**P/E & P/B ratio based on closing market price as on Dec 8th, 2022, At the upper price band of IPO, financial details consolidated audited results as on FY22.*



Our View

Sula Vineyards Limited is India's largest wine producer with market leadership both in terms of value and volume across Elite, Premium, Economy (INR 400-700) and Popular (<400) and has a higher share of 61% by value in 'Elite'(INR 950+) and 'Premium'(INR 700-950) categories . Its popular brands include "RASA", "Dindori", "The source", "Satori", "Madera" and "Dia". The company owned brands contribution has been on the rise from 65% to 80%+ and would continue to be so as highlighted by the management. Considering the higher share of high margin segments in the revenues and focus on owned brand, the company would be able to expand its margin going forward. Its strong position in a high barrier and fast growing segment would help it to gain further in terms of sales in the long run. We recommend to SUBSCRIBE for listing gains.

Source– Company, RHP, CBSL



Analyst Certification

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