

IPO Note: Sula Vineyards Ltd.

Industry: Alco-Beverage

Reco: Subscribe

Date: December 09, 2022

Issue Snapshot		Issue Break up		
Company Name	Sula Vineyards Ltd.	QIB ex Anchor	20%	5,380,106
Issue Opens	December 12, 2022 to December 14, 2022	Anchor Investor	30%	8,070,159
Price Band	Rs. 340 to Rs. 357	HNI<Rs. 10 Lakhs	5%	1,345,027
Bid Lot	42 Equity Shares and in multiples thereof.	HNI>Rs. 10 Lakhs	10%	2,690,053
The Offer	Public issue of 26,900,530 Equity shares of Face value Rs. 2 each, (Comprising of Offer for Sale by Selling Shareholder).	RII	35%	9,415,186
Issue Size	Rs. 914.6 – 960.4 Crore	Total Public	100%	26,900,530
IPO Process	100% Book Building	Equity Share Pre Issue (Nos. Cr.)		8.4
Face Value	Rs. 2.00	OFS Share (Nos. Cr.)		2.7
Exchanges	NSE & BSE	Equity Share Post Issue (Nos. Cr.)		8.4
BRLM	Kotak Mahindra Capital Company Ltd, CLSA India Private Ltd and IIFL Securities Ltd	Market Cap (Rs. Cr.)		3,005.9
Registrar	KFin Technologies Ltd	Stake Sale by OFS		31.9%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 937,203 equity shares by Rajeev Samant, up to 7,191,835 equity shares by Cofintra S.A., up to 200,000 equity shares by Haystack Investments Limited, up to 687,389 equity shares by Saama Capital III, Ltd., up to 121,076 equity shares by Swip Holdings Limited, up to 7,191,835 equity shares by Verlinvest S.A. and up to 6,579,565 equity shares by Verlinvest France S.A., up to 50,000 equity shares by Dinesh G. Vazirani, up to 2,250 equity shares by J.A. Moos, up to 479,063 equity shares by Karishma Singh, up to 8,625 equity shares by Major A.V. Phatak (Retd.), up to 1,007,314 equity shares by Narain Girdhar Chanrai, up to 2,014,758 equity shares by Ruta M. Samant and up to 429,617 equity shares by Sanjay Naraindas Kirpalani)

Company Highlights

- Sula Vineyards Ltd (SVL) is India's largest wine producer and seller as of March 31, 2022. The company 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 FY09 crossing 50% market share by value in the domestic 100% grapes wine market in FY12. The company has consistently gained market share (on the basis of their total revenue from operations) from 33% in FY09 in 100% grapes wine category to 52% in value in FY22.
- SVL is the market leader across all 4 price segments, being 'Elite' (₹ 950+), 'Premium' (₹ 700-950), 'Economy' (₹ 400-700) and 'Popular' (<₹ 400), with a higher share of approximately 61% by value in the 'Elite' and 'Premium' categories in FY22, as compared to the overall market share of 52% in the Indian wine industry.
- SVL is also recognized as the market leader across wine variants, including red, white and sparkling wines. Sula Shiraz Cabernet is India's largest selling wine by value in FY21.
- SVL business can be broadly classified under 2 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").
- Sula 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, Sula produces 56 different labels of wine at 4 owned and 2 leased production facilities located in the Indian states of Maharashtra and Karnataka.

- As India's largest wine producer, Sula aims to harness the market leadership position for future growth opportunities in the Indian wine market with the wide range of offerings for consumers across various price points. SVL consumer proposition focuses on offering the consumers extensive varieties of wine at varying price points, with 56 labels to choose from a portfolio of 13 distinct brands as of September 30, 2022.
- The wines are available at various price points between ₹235 to ₹1,850 per 750 ml bottle in Maharashtra, making them accessible for consumers with different budgets —appealing to mass markets as well as having a premium product strategy. The wines are classified under 4 broad categories, namely the 'Elite' category with 21 labels, followed by the 'Premium' category with 13 labels, and the 'Economy' category with 13 labels, and the 'Popular' category offering 9 labels. Sula wines have been segment leaders under each of these 4 categories in the last 6 years from FY17 to FY22. The company also regularly introduce new products, with 7 labels launched in the last 5 Fiscals.
- Sula serviced close to 8,000 hotels, restaurants and caterers, which makes them the leader in terms of footprint among wine players in India and experienced a significant rise in the Off-trade sales in the last 3 years with the Off-trade sales contributing 72.25% of the secondary sales during FY22, compared to 61.33% in FY20.
- Sula has tie-ups with distributors in Maharashtra, Haryana, Delhi, Goa and Punjab. To that end, the company 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.
- 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. They 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.

View

Sula is India's largest wine producer and seller with a market share of 52% in the Indian wine industry. The company is also the market leader across all 4 price segments, being 'Elite' (Rs 950+), 'Premium' (Rs 700-950), 'Economy' (Rs 400-700) and 'Popular' (<Rs 400), with a higher share of approximately 61% by value in the 'Elite' and 'Premium' categories in FY22. Sula's business can be classified under two heads: (a) Wine Business: production/import of wines and distribution of the same and (b) Wine Tourism Business: sale of services from ownership and operation of wine tourism venues, including vineyard resorts and tasting rooms. Apart from its flagship brand "Sula," popular brands include "RASA", "Dindori", "The source," "Satori", "Madera" & "Dia". The company has 4 owned and 2 leased production facilities located in the Indian states of Maharashtra and Karnataka. The business has strong entry barriers given the nature of the product with high capital investment as well as time (ageing) and only one raw material production cycle in a year. Wine grapes require significant work by farmers; hence Sula has term supply arrangements (of up to 12 years) with grape growers for approximately 2,290 acres as of September 30, 2022. Revenue for the company grew at a CAGR of 13.3% between FY11 and FY22 and have only emerged stronger post-COVID-19 pandemic as share of 'Off-trade' via supermarkets and licensed wine shops grew at a higher rate than 'On-trade' due to restrictions on on-premise consumption venues, such as hotels, bars, restaurants and caterers. Besides, the company has consciously increased revenue contribution of own brands in wine business from 63.57% in FY20 to 83.91% in FY22 while imports came down drastically from 30.96% to 7.87% during the same period. Sula's Wine Tourism Business also contributed 7.63% of revenues in FY22 from 5.40% in FY20 and is expected to improve further, with higher traction for tourism industry. Sula's Average Occupancy at Resorts improved from 43.66% in FY21 to 70.97% in FY22 and further to 77.37% in H1FY23. Capacity utilization of manufacturing units also improved to 79.3% in FY22 from 69.4% in FY21. Moreover, Sula has focused on 'Elite and Premium' products with their revenue share improving from 67.81% in FY20 to 70.57% in FY22 and at the cost of 'Economy and Popular' categories. These steps have led to improvement in gross margins/EBITDA margins from 47.76%/9.68% in FY20 to 65.29%/25.57% in FY22 respectively. Together with reduction net-debt to equity ratio from 1.23 in FY20 to 0.58 in FY22, ROCE (reported) improved from 4.09% in FY20 to 20.86% in FY22. Based on the above factors, we advice investors to 'SUBSCRIBE' to the issue.

Key Financial and Operational Performance Indicators

	FY20	FY21	FY22	H1FY22	H1FY23
Details of Wine Business and Wine Tourism Business (Rs. in Crore, except as otherwise specified)					
Wine Brands	493.1	398.42	416.63	145.44	203.29
Own Brands	331.62	287.3	380.89	131.7	191.55
- 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	17.12%	15.63%	15.81%	15.55%	16.86%
Third Party Brands and distribution business	161.48	111.12	35.74	13.73	11.74
Wine Tourism Business	28.17	18.14	34.62	12.09	19.8
Others	0.37	1.4	2.67	1.63	0.98
Revenue from operations	521.63	417.96	453.92	159.15	224.07
Revenue contribution (%)					
Wine Business - Own Brands	63.57%	68.74%	83.91%	82.75%	85.49%
Wine Business - Imports	30.96%	26.59%	7.87%	8.63%	5.24%
Wine Tourism Business	5.40%	4.34%	7.63%	7.60%	8.84%
Others	0.07%	0.33%	0.59%	1.02%	0.44%
Gross Margin (Rs. in Crore, except as otherwise specified)					
Gross Margin	249.15	223.84	296.36	103.62	157.78
Gross Margin (%)	47.76%	53.32%	65.29%	65.11%	70.41%
EBITDAE	50.49	64.51	116.07	30.06	64.31
EBITDAE Margin (%)	9.68%	15.44%	25.57%	18.88%	28.70%
Net Asset Turnover	1.73	1.37	1.15	-	-
Cash Conversion Cycle (Days)	237	317	347	-	-
Days Sales Outstanding (days)	115	125	98	-	-
Days Inventory Outstanding (days)	252	358	449	-	-
Days Payable Outstanding (days)	130	166	200	-	-
ROCE – reported (%)	4.09%	10.67%	20.86%	-	-
Net Working Capital Days (days)	26	48	65	-	-
Debt to Equity Ratio (times)	1.23	0.99	0.58	0.76	0.48
Debt to EBITDAE Ratio (times)	7.29	4.67	1.97	-	-
Net profit/ (loss) for the year (PAT)	-15.94	3.01	52.14	4.53	30.51
PAT Margin (%)	-3.06%	0.72%	11.49%	2.85%	13.61%

Key Financial and Operational Performance Indicators

	FY20	FY21	FY22	H1FY22	H1FY23
Gross Volumes (In Million Litres)					
Own Brands Gross Volume	7.68	6.46	8.04	2.82	3.98
Third Party Brands and distribution business Gross Volume	0.5	0.33	0.38	0.17	0.11
Gross Volume	8.18	6.78	8.42	2.99	4.09
Volume of sales and revenue of operations of the Own Brands Particulars					
Elite and Premium					
Number of cases	393,878	330,562	442,833	153,579	214,153
Volume contribution (%)	46.16%	46.09%	49.56%	48.98%	48.46%
Revenue of operations (Rs. in Cr)	224.87	197.036	268.8	91.76	135.09
Revenue contribution (%)	67.81%	68.58%	70.57%	69.67%	70.53%
Economy and Popular categories					
Number of cases	459,402	386,692	450,712	160,004	227,794
Volume contribution (%)	53.84%	53.91%	50.44%	51.02%	51.54%
Revenue of operations (Rs. in Cr)	106.75	90.27	112.1	39.94	56.46
Revenue contribution (%)	32.19%	31.42%	29.43%	30.33%	29.47%
Other KPIs related to the Wine Tourism Business					
Average Room Revenue (ARR) (in Rs.)	8,759	9,044	10,367	10,225	10,195
Average Rooms Occupancy (%)	66.48%	43.66%	70.97%	55.69%	77.37%

Installed Capacity and Capacity Utilisation (in Lakh Litres)

Location	FY20		FY21		FY22		H1FY23	
	Installed Capacity	Capacity utilization	Installed Capacity	Capacity utilization	Installed Capacity	Capacity utilization	Installed Capacity	Capacity utilization
Maharashtra								
Nashik Winery	45.39	27.37	45.71	28.95	46.40	36.79	46.40	22.44
Domaine Dindori	66.21	45.87	66.21	49.23	66.21	52.61	66.21	36.91
Leased Winery 1	9.94	6.92	9.94	7.68	9.94	8.94	9.94	5.74
York Winery (ASPL)	0.00	0.00	0.00	0.00	4.84	3.96	4.84	3.44
Total Maharashtra	121.53	80.16	121.85	85.86	127.39	102.29	127.39	68.54
Karnataka								
Domaine Sula (DS)	11.21	7.66	11.36	8.14	11.39	9.22	11.39	8.47
Leased Winery 2	6.75	2.93	6.62	3.10	6.62	3.99	6.62	4.83
Total Karnataka	17.96	10.59	17.98	11.24	18.01	13.21	18.01	13.31
Total	139.49	90.76	139.83	97.10	145.40	115.50	145.40	81.84

Financial Statement

(In Rs. Cr)	FY20	FY21	FY22	H1FY22	H1FY23
Share Capital	15.0	15.1	15.7	15.4	16.3
Net Worth	302.3	304.7	395.3	344.3	449.2
Long Term Borrowings	78.8	59.1	48.1	53.7	41.2
Other Long Term Liabilities	44.4	35.9	25.1	35.3	27.1
Short-term borrowings	289.4	242.1	180.9	208.8	173.4
Other Current Liabilities	116.1	109.7	109.3	75.4	80.0
Fixed Assets	354.8	317.9	362.2	331.7	371.1
Non Current Assets	385.9	26.8	25.8	22.7	48.1
Current Assets	443.1	406.9	370.5	363.1	351.8
Total Assets	831.0	751.6	758.6	717.5	771.0
Revenue from Operations	521.6	418.0	453.9	159.2	224.1
Revenue Growth (%)		(19.9)	8.6		40.8
EBITDA	48.9	61.0	113.3	28.7	62.6
EBITDA Margin (%)	9.4	14.6	25.0	18.1	27.9
Net Profit	(15.9)	3.0	52.1	4.5	30.5
Net Profit Margin (%)	(3.1)	0.7	11.5	2.8	13.6
Earnings Per Share (Rs.)	(2.1)	0.4	6.8	0.6	3.8
Return on Networth (%)	(5.2)	1.0	13.2	1.3	6.8
Net Asset Value per Share (Rs.)	39.9	40.4	50.3	44.8	55.1

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY20	FY21	FY22	H1FY22	H1FY23
Cash flow from Operations Activities	44.7	119.5	87.4	15.4	26.3
Cash flow from Investing Activities	(44.0)	(21.7)	(56.8)	(23.7)	(19.7)
Cash flow from Financing Activities	33.4	(94.5)	(61.3)	(16.6)	(3.1)
Net increase/(decrease) in cash and cash equivalents	34.0	3.4	(30.6)	(24.9)	3.5
Cash and cash equivalents at the beginning of the year	3.4	37.5	40.8	40.8	10.2
Cash and cash equivalents at the end of the year	37.5	40.8	10.2	15.9	13.7

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBIDTA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Sula Vineyards Ltd.	453.9	25.0	0.5	24.2	13.2	49.3	6.7	25.6	6.7	3005.9
United Spirits Ltd.	9712.4	5.3	0.1	22.8	17.9	52.6	11.9	37.4	2.1	68427.6
United Breweries Ltd.	5838.4	5.5	0.0	13.1	9.7	84.8	11.8	47.6	2.9	46663.5
Radico Khaitan Ltd.	2868.0	3.3	0.1	16.1	13.0	59.0	6.9	38.0	1.1	14503.6

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