

IPO Report

Choice

“SUBSCRIBE” to

Sula Vineyards Ltd.

A leader in the domestic wine market



Salient features of the IPO:

- India's largest wine producer and seller, **Sula Vineyards Ltd.** (Sula), is coming up with an IPO to raise Rs. 960cr, which opens on 12th Dec. and closes on 14th Dec. 2022. The price band is Rs. 340 - 357 per share.
- The IPO consists only of OFS portion, thus the company will not receive any proceeds from the issue.
- Through this IPO, the promoter group is diluting 1.11% of the stake. Couple of private equity investors are fully exiting, while others investors are partially offloading their stake in the company.

Key competitive strengths:

- High barriers of entry
- Established market leader in the Indian wine sector with the leading brand "Sula"
- Largest wine producer in India with the widest and innovative product offering supported by an efficient production mechanism
- Largest wine distribution network and sales presence
- Secured supply of raw material with long-term contracts exclusive to Sula
- Leader and pioneer of the wine tourism business in India
- Early adoption and focus on sustainability
- Experienced board, qualified senior management team

Risk and concerns:

- Unfavorable government policies & regulations
- Continued poor per capita consumption of wine
- Difficulty in further penetrating into Tier-1 and 2 cities
- Adverse climatic conditions impacting the cultivations of grapes
- Delay in expanding the capacity
- Business seasonality
- Difficulty in maintaining current profitability
- Competition

Below are the key highlights of the company:

- The Indian alcoholic beverage market is the third largest in the world after China and Russia. The domestic market is predominantly a spirit's market with more than 90% of alcohol consumed is in the form of spirits. The contribution of wine to overall alcohol consumption in India is less than 1% against the world average of around 13%. Moreover, India's per capita consumption of wine is less than 100ml, which is lower in comparison to certain developed and developing economies. Thus considering the lower wine consumption levels, positive demographic factors and annually expanding target population, India seems to be one of the most attractive markets for the wine manufacturers.
- In terms of value, the domestic wine market grew by 18.3% CAGR over FY14-21, while the Indian made foreign liquor market grew by 12.3% CAGR. Going forward, the India wine market is anticipated to grow by 20% CAGR over FY22-25, to reach a size of Rs. 3,785cr. Key drivers for the growth would be premiumization, wider acceptance of wine as a social drink and the growing perception of wine as a healthy alternative to spirits. The wine market is segmented into 100% grape-based wine and fortified mixed wines, while the former contributed more than 90% (by volume) to the market. The domestic 100% grape wine market which is estimated at Rs. 1,345cr in FY22 is likely to grow by 22% CAGR over FY22-25 to reach a size of Rs. 2,550cr.
- The Indian wine market today is dominated by domestic wines, contributing 83% in terms of volume. The grape wine market is dominated by the top-three players contributing close to 80%. Incorporated in 2003, Sula is India's largest wine producer & seller and has consistently been the market leader in the domestic wine market both in terms of sales volume as well as value. Its market share has improved from 33% in FY09, crossed 50% in FY12 and since then maintained the same. In FY22, the company had 52% market share in the domestic 100% grapes wine market.

Issue details

Price band	Rs. 340 - 357 per share
Face value	Rs. 2
Shares for fresh issue	Nil
Shares for OFS	2.690cr shares
Fresh issue size	N/a
OFS issue size	Rs. 914.6 - 960.3cr
Total issue size	2.690cr shares (Rs. 914.6 - 960.3cr)
Bidding date	12 th Dec. - 14 th Dec. 2022
MCAP at higher price band	Rs. 3,006cr
Enterprise value at higher price band	Rs. 3,145cr
Book running lead manager	Kotak Mahindra Capital Company Ltd., CLSA India Pvt. Ltd. and IIFL Securities Ltd.

Registrar KFin Technologies Ltd.

Sector Breweries & Distilleries

Promoters Mr. Rajeev Samant

Issue break-up

Category	Percent of issue (%)	Number of shares
QIB portion	50%	1.345cr shares
Non institutional portion	15%	0.404cr shares
Retail portion	35%	0.942cr shares

Indicative IPO process time line

Finalization of basis of allotment	19 th Dec. 2022
Unblocking of ASBA account	20 th Dec. 2022
Credit to demat accounts	21 st Dec. 2022
Commencement of trading	22 nd Dec. 2022

Pre and post - issue shareholding pattern

	Pre-issue	Post-issue
Promoter & promoter group	28.44%	27.33%
Public	71.56%	72.67%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot

Number of shares per lot	42
Application money	Rs. 14,994 per lot

Key highlights of the company (Contd...):

Company name	Face value (Rs.)	CMP (Rs.)	MCAP (Rs. cr)	EV (Rs. cr)	Stock return				TTM total operating revenue (Rs. cr)	TTM EBITDA (Rs. cr)	TTM PAT (Rs. cr)	TTM gross margin	TTM EBITDA margin	TTM PAT margin
					1 M	3 M	6 M	1 Y						
Sula Vineyards Ltd.	2	357	3,006	3,145					518.8	147.2	78.1	70.1%	28.4%	15.1%
Associated Alcohols & Breweries Ltd.	10	444	803	726	-4.9%	0.2%	1.2%	-13.9%	644.3	77.2	57.3	49.2%	12.0%	8.9%
Globus Spirits Ltd.	10	890	2,563	2,645	12.2%	2.4%	-7.8%	-33.6%	2,515.7	256.2	138.5	59.0%	10.2%	5.5%
GM Breweries Ltd.	10	616	1,126	1,099	5.8%	-2.6%	5.8%	-12.1%	2,168.6	102.6	98.7	80.8%	4.7%	4.6%
Radico Khaitan Ltd.	2	1,069	14,283	14,363	4.2%	3.7%	36.4%	-0.8%	12,733.5	381.2	245.8	86.3%	3.0%	1.9%
Som Distilleries & Breweries Ltd.	5	141	990	1,158	23.0%	45.0%	113.0%	269.3%	1,126.6	68.6	39.2	67.1%	6.1%	3.5%
Tilaknagar Industries Ltd.	10	104	1,721	2,176	4.5%	34.6%	47.6%	19.5%	2,099.1	111.4	48.4	76.9%	5.3%	2.3%
United Breweries Ltd.	1	1,746	46,152	45,242	5.7%	3.8%	17.0%	14.1%	16,046.2	921.2	550.3	75.6%	5.7%	3.4%
United Spirits Ltd.	2	935	67,955	68,013	4.5%	16.0%	18.3%	4.3%	32,098.5	1,760.1	1,300.6	81.0%	5.5%	4.1%
Average												72.0%	6.6%	4.3%

Company name	3Y revenue growth (CAGR)	3Y EBITDA growth (CAGR)	3Y PAT growth (CAGR)	3Y average EBITDA margin	3Y average PAT margin	3Y capital employed growth (CAGR)	3Y CFO growth (CAGR)	3Y average working capital cycle (Days)	3Y average fixed asset turnover (x)	3Y average total asset turnover (x)	3Y average RoE	3Y average RoIC
Associated Alcohols & Breweries Ltd.	-1.0%	3.6%	11.1%	17.1%	11.5%	18.2%	16.5%	(6)	3.9	1.5	22.6%	22.2%
Globus Spirits Ltd.	16.2%	62.3%	94.1%	17.4%	9.2%	23.4%	27.1%	(16)	2.0	1.3	19.8%	17.9%
GM Breweries Ltd.	-1.1%	6.4%	17.3%	20.3%	19.5%	17.3%	11.2%	(5)	5.3	0.7	15.8%	56.1%
Radico Khaitan Ltd.	8.7%	3.9%	7.2%	15.3%	10.1%	11.5%	92.5%	(68)	3.1	0.9	14.4%	16.6%
Som Distilleries & Breweries Ltd.	-11.2%	-38.3%		3.7%	-4.2%	-6.5%	-49.9%	(21)	0.9	0.5	-4.0%	-0.2%
Tilaknagar Industries Ltd.	9.5%		-59.1%	5.4%	13.4%	-14.3%	-41.6%	(218)	1.2	0.6		2.8%
United Breweries Ltd.	-5.3%	-10.8%	-7.6%	11.5%	5.2%	-6.7%	33.1%	(106)	2.7	0.9	8.2%	9.3%
United Spirits Ltd.	2.1%	2.5%	12.1%	15.2%	6.8%	13.2%	11.7%	(74)	4.5	1.0	14.6%	28.0%
Average	2.3%	4.2%	10.7%	13.2%	8.9%	7.0%	12.6%	(64)	3.0	0.9	13.0%	19.1%

Company name	EPS (Rs.)	BVPS (Rs.)	DPS (Rs.)	Debt equity ratio (x)	Fixed asset turnover ratio (x)	Total asset turnover ratio (x)	RoE	RoCE	P/E (x)	P/B (x)	EV/Sales (x)	MCAP/EBITDA (x)	MCAP/Sales (x)	Earning yield
Associated Alcohols & Breweries Ltd.	31.7	173.0	1.0	0.0	4.7	1.5	18.3%	23.9%	14.0	2.6	1.1	9.4	1.2	7.1%
Globus Spirits Ltd.	48.1	268.1	2.0	0.2	3.3	2.0	17.9%	23.1%	18.5	3.3	1.1	10.3	1.0	5.4%
GM Breweries Ltd.	54.0	323.3	4.0	0.0	29.8	3.2	16.7%	17.0%	11.4	1.9	0.5	10.7	0.5	8.8%
Radico Khaitan Ltd.	18.4	151.6	2.4	0.1	15.0	4.2	12.1%	15.6%	58.1	7.0	1.1	37.7	1.1	1.7%
Som Distilleries & Breweries Ltd.	5.6	41.4	0.0	0.6	2.8	1.6	13.5%	13.0%	25.2	3.4	1.0	16.9	0.9	4.0%
Tilaknagar Industries Ltd.	2.9	8.0	0.0	3.9	3.9	2.1	36.3%	15.7%	35.5	12.9	1.0	19.5	0.8	2.8%
United Breweries Ltd.	20.8	148.8	0.5	0.0	7.9	2.7	14.0%	22.3%	83.9	11.7	2.8	49.1	2.9	1.2%
United Spirits Ltd.	17.9	68.2	0.0	0.1	16.5	3.2	26.3%	31.4%	52.2	13.7	2.1	38.6	2.1	1.9%
Average			1.2	0.6	10.5	2.6	19.4%	20.2%	37.4	7.1	1.4	24.0	1.3	4.1%

Note: Financial data is for TTM with IPO related adjustments; Source: Choice Broking Research

- Sula distributes 56 different labels of wines under a portfolio of 13 distinct brands. Its flagship brand "Sula" is the "category creator" of wine in India. Its other popular brands include "RASA", "Dindori", "The source", "Satori", "Madera" and "Dia". The company has the largest range of wines in the domestic market and leadership in all the four price segments including Popular, Economy, Elite and Premium segments since last six years i.e. from FY17-22. Sula had a market share of 62% in the Elite and Premium category of the wines. Shiraz Cabernet, with retail sales of Rs. 138cr in FY21, is India's largest selling wine by value and has maintained the position since 2016. Considering its leadership position and wide range of offerings, the company is well placed to capture the future growth opportunities in the Indian wine market.
- Sula's operations can be broadly classified under two categories (i) the production of wine, the import of wines & spirits and the distribution of wines & spirits (the "Wine Business"); and (ii) the sale of services from the wine tourism venues, which includes vineyard resorts and tasting rooms (the "Wine Tourism Business"). During FY20-22, the wine business contributed around 94% to the consolidated revenue, while the rest was mainly from the wine tourism business.
- The company is the pioneers of wine tourism in India, credited with first wine tasting room in India, the first vineyard resort, the first wine music festival and the first winery tours. As part of the Wine Tourism Business, Sula owns and operates two vineyard resorts (with capacity of around 70 rooms) located adjacent to its winery in Nashik, Maharashtra. Its wine tasting rooms are also located at its winery in Maharashtra and Karnataka.
- The top wine producing states, Maharashtra and Karnataka, are also the top consuming states, contributing close to 57% to the overall wine market in India. Sula generated around 55% and 15% of the total revenue from the Maharashtra and Karnataka, respectively. For secured supply of raw materials, the company had access to approximately 2,521 acres of vineyards (as of 30th Jun. 2022), which is significantly higher than the second largest wine company in the Indian market. Of the total acreage, it has entered into long-term supply arrangements (of up to 12 years) with contract farmers for approximately 2,290 acres. Through such long-term supply arrangements, the company meets over 90% of its annual requirement of wine grapes.

Key highlights of the company (Contd...):

- As of 30th Sept. 2022, Sula had presence in 25 states and six union territories in India. It entered the overseas markets in 2003 and is currently offering wines in over 20 countries, including Spain, France, Japan, UK and USA. The company's distribution platform included over 50 distributors, 11 corporations, 14 licensed resellers, seven company depots, three defence units, over 23,000 points-of-sale (including over 13,500 retail touchpoints and over 9,000 hotels, restaurants & caterers). Sula also has a strong direct-to-consumer (D2C) selling channel primarily through its Wine Tourism Business facilities in Nashik (Maharashtra) and Bengaluru (Karnataka) and generated highest number of D2C sales in the Indian wine market. To further expand the D2C footprint, its products are also available over various e-commerce platforms. The company is market leader in the on-trade segment with more than 50% share. Moreover, its off-trade sales contributed 74% to its total sales in FY21.
- Over FY20-22, Sula generated around 6-8% of the total operating revenue from the government grants i.e. from the Maharashtra government's wine market promotion scheme. The Maharashtra government is likely to formulate a new policy, which shall supersede the existing policy, pursuant to which Sula is getting the grants. If there is no/lower provision of market promotion scheme in the new policy, it will negatively impact the profitability of the company.
- In the past 10 years, on a business growth of around 20% CAGR, Sula has generated an EBITDA margin in the range of 12-15%. However, since FY20, the company has increased its focus on the sales of its own branded wines, which led to an improvement in the profitability margins. Sula used to generate around 30% of the business from the distribution of third party brands, which was a low margin business. In FY22 and in H1 FY23, this business contributed just 7.9% and 6.5% to the consolidated top-line.
- Business operation of alcoholic beverages sector was severely impacted during the Covid-19 pandemic. With the gradual ease in the restrictions, companies ramped-up their business. Wine manufacturers were also impacted, however, Sula with its dominant market position, diversified product profile across different price levels and exit from non-performing assets, was able to emerge stronger in the aftermath of the pandemic.
- Over FY20-22, the company reported a 6.7% CAGR fall in the consolidated revenue, which stood at Rs. 453.9cr in FY22. During the period total sales volume increased by 1.5% CAGR, while lower focus on the distribution of third party brands led to 9.4% CAGR fall in the blended realization. Wine business from the owned brands increased by 7.2% CAGR, while business from third party brands declined by 53% CAGR. Net cost of revenue declined by 28.2% CAGR, which mainly led to an around 18ppts expansion in the gross margin. This led to a 52.2% CAGR higher consolidated EBITDA and 15.6ppts higher EBITDA margin, which stood at at 25% in FY22. With exit from non-performing assets, depreciation charge declined by 17.9% CAGR, while lower financial liabilities led to a 16.5% CAGR fall in the finance costs. Pre-tax profit was at loss in FY20, but increased exponentially thereafter. Reported PAT was at Rs. 52.1cr in FY22, compared to a loss of Rs. 15.7cr in FY20.
- Sula reported positive operating cash flow during the period, which increased by 39.9%. Average operating cash flow stood at Rs. 83.9cr over FY20-22. Financial liabilities declined by 21.3% CAGR with debt-to-equity ratio improving from 1.4x in FY20 to 0.6x in FY22. Pre-issue average RoIC and RoE stood at 8.4% and 3.2%, respectively.
- During H1 FY23, consolidated revenue increased by 40.8% Y-o-Y to Rs. 224.1cr, mainly on the back of 36.8% Y-o-Y increase in the sales volume. Relatively lower operating expenses led to around 10ppts and 11ppts expansion in the EBITDA and PAT margin. On TTM basis, top-line stood at Rs. 518.8cr with an EBITDA and PAT margin of 28.4% and 15.1%, respectively.
- Based on our conservative assumptions, we are forecasting a top-line growth of 16.4% CAGR (led by 12.9% and 4% CAGR higher sales volume and blended realization, respectively) over FY22-24E to Rs. 615.4cr. EBITDA and PAT margins is likely to expand by 97bps and 121bps, respectively. Post-issue RoIC and RoE is expected to expand by 150bps and 144bps, respectively, to 15.6% and 14.6% in FY24E.

Peer comparison and valuation: There are no comparable peers having product profile similar to Sula. The above peers are in alcoholic beverage (other than wine) market, thus considered only for benchmarking the demanded valuations. At higher price band, Sula is demanding a P/E multiple of 38.5x (to its TTM earning), which seems to be in-line to the peer average.

Considering the lower wine penetration in the domestic market and expanding demographic factors like rising per capita income and expanding target population, we believe the domestic wine market is on the cusp of exponential growth. Sula being the largest producer & seller of wine is well placed to capture the future growth opportunities in the Indian wine market. Thus we assign a **"SUBSCRIBE"** rating for the issue.

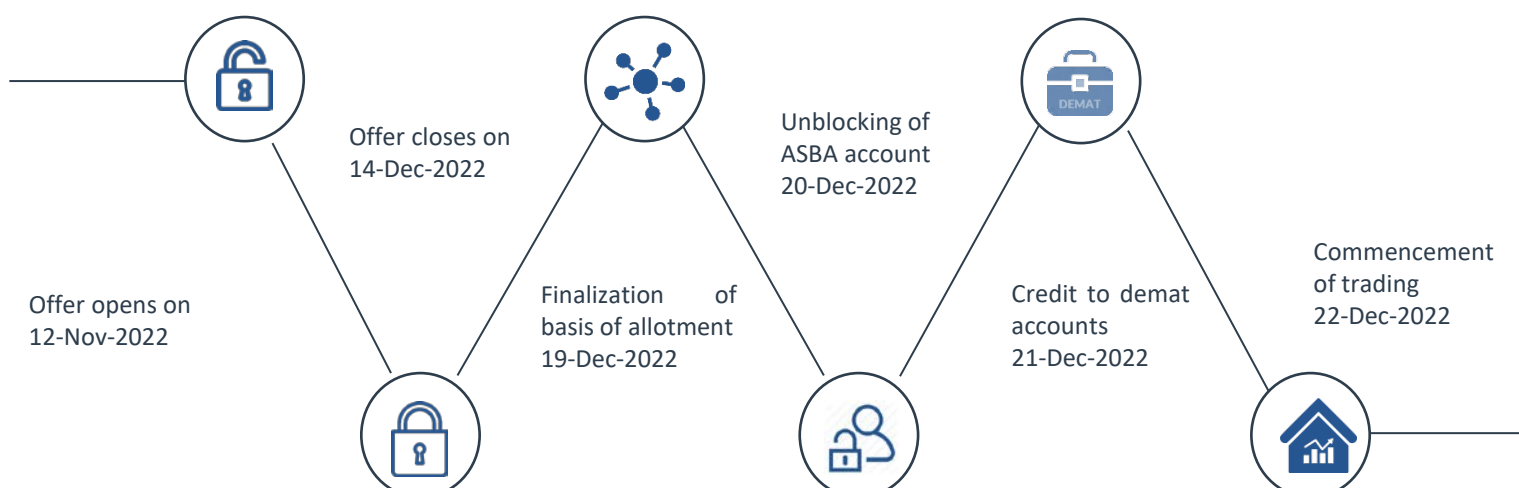
About the issue:

- Sula is coming up with an IPO with 2.690cr shares (fresh issue: nil; OFS shares: 2.690cr shares) in offering. This offer represents around 31.95% of the post issue paid-up equity shares of the company. Total IPO size is Rs. 914.6 - 960.3cr.
- The issue will open on 12th Dec. 2022 and close on 14th Dec. 2022.
- The issue is through book building process with a price band of Rs. 340 - 357 per share.
- Lot size is 42 equity shares and in multiple of 42 shares thereafter.
- The issue size is Rs. 914.6 - 960.3cr.
- The IPO consists only of OFS portion, thus the company will not receive any proceeds from the issue.
- Through this IPO, the promoter group is diluting 1.11% of the stake. Couple of private equity investors are fully exiting, while others investors are partially offloading their stake in the company.
- 50% of the net issue are reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- Promoter currently holds 28.44% stake in the company and post-IPO this will come down to 27.33%. Public holding will increase from current 71.56% to 72.67%.

Pre and post-issue shareholding pattern (%)		
	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group	28.44%	27.33%
Public	71.56%	72.67%

Source: Choice Equity Broking

Indicative IPO process time line:



Pre-issue financial performance:

Performance over FY20-22: Business operation of alcoholic beverages sector was severely impacted during the Covid-19 pandemic. With the gradual ease in the restrictions, companies ramped-up their business. Wine manufacturers were also impacted, however, Sula with its dominant market position, diversified product profile across different price levels and exit from non-performing assets, was able to emerge stronger in the aftermath of the pandemic.

Over FY20-22, the company reported a 6.7% CAGR fall in the consolidated revenue, which stood at Rs. 453.9cr in FY22. During the period total sales volume increased by 1.5% CAGR, while lower focus on the distribution of third party brands led to 9.4% CAGR fall in the blended realization. Wine business from the owned brands increased by 7.2% CAGR, while business from third party brands declined by 53% CAGR. Consequently, business contribution from the sales of owned brands increased from 63.6% in FY20 to 83.9% in FY22. Business from wine tourism vertical increased by 10.9% CAGR, while its business contribution stood at 7.6% in FY22.

Net cost of revenue declined by 28.2% CAGR, which mainly led to an around 18ppts expansion in the gross margin. This led to a 52.2% CAGR higher consolidated EBITDA during FY20-22. EBITDA margin expanded by 15.6ppts to 25% in FY22.

With exit from non-performing assets, depreciation charge declined by 17.9% CAGR, while lower financial liabilities led to a 16.5% CAGR fall in the finance costs. Pre-tax profit was at loss in FY20, but increased exponentially thereafter. Reported PAT was at Rs. 52.1cr in FY22, compared to a loss of Rs. 15.7cr in FY20.

Sula reported positive operating cash flow during the period, which increased by 39.9%. Average operating cash flow stood at Rs. 83.9cr over FY20-22. Financial liabilities declined by 21.3% CAGR with debt-to-equity ratio improving from 1.4x in FY20 to 0.6x in FY22. Pre-issue average RoIC and RoE stood at 8.4% and 3.2%, respectively.

Performance during H1 FY23: On the back of 36.8% Y-o-Y increase in the sales volume and 2.2% Y-o-Y rise in the blended realization, Sula reported a 40.8% Y-o-Y rise in consolidated revenue to Rs. 224.1cr. Relatively lower operating expenses led to around 10ppts and 11ppts expansion in the EBITDA and PAT margin.

On TTM basis, top-line stood at Rs. 518.8cr with an EBITDA and PAT margin of 28.4% and 15.1%, respectively.

Pre-issue consolidated financial snapshot (Rs. cr)	FY20	FY21	FY22	H1 FY22	H1 FY23	TTM	CAGR over FY20-22	Y-o-Y (FY22 annual)
Wine business - Own brands	331.6	287.3	380.9	131.7	191.5	440.7	7.2%	32.6%
Wine business - Third party brands & distribution business	161.5	111.1	35.7	13.7	11.7	33.7	-53.0%	-67.8%
Total wine business	493.1	398.4	416.6	145.4	203.3	474.5	-8.1%	4.6%
Wine tourism business	28.2	18.1	34.6	12.1	19.8	42.3	10.9%	90.9%
Others	0.4	1.4	2.7	1.6	1.0	2.0	168.9%	91.0%
Revenue from operations	521.6	418.0	453.9	159.2	224.1	518.8	-6.7%	8.6%
Gross profit	257.8	228.5	307.3	106.9	163.5	363.9	9.2%	34.5%
EBITDA	48.9	61.0	113.3	28.7	62.6	147.2	52.2%	85.8%
Reported PAT	(15.7)	3.0	52.1	4.5	30.5	78.1		1644.4%
Adjusted PAT	(15.7)	5.2	52.1	4.5	30.5	78.1		896.9%
Restated reported EPS	(1.9)	0.6	6.2	0.5	3.6	9.3	-166.1%	-91.3%
Cash flow from operating activities	44.7	119.5	87.4	15.4	26.3	98.4	39.9%	-26.8%
NOPLAT	12.8	33.4	67.2	13.7	37.0	91.1	129.5%	101.6%
FCF		5.0	16.8		12.7			233.5%
RoIC (%)	3.1%	8.1%	14.1%	3.0%	7.3%	18.0%	1,101 bps	603 bps
Revenue growth rate (%)		-19.9%	8.6%		40.8%			
Gross profit growth rate (%)		-11.4%	34.5%		53.0%			
Gross profit margin (%)	49.4%	54.7%	67.7%	67.2%	73.0%	70.1%	1,828 bps	1,303 bps
EBITDA growth rate (%)		24.6%	85.8%		117.8%			
EBITDA margin (%)	9.4%	14.6%	25.0%	18.1%	27.9%	28.4%	1,558 bps	1,037 bps
EBIT growth rate (%)		153.0%	154.3%		194.4%			
EBIT margin (%)	2.7%	8.4%	19.8%	10.7%	22.3%	23.7%	1,708 bps	1,132 bps
Restated adjusted PAT growth rate (%)			896.9%		573.3%			
Restated adjusted PAT margin (%)	-3.0%	1.3%	11.5%	2.8%	13.6%	15.1%	1,449 bps	1,024 bps
Inventory days	274.9	365.4	477.0	595.3	543.7	428.0	31.7%	30.6%
Debtor days	106.2	120.2	93.7	136.3	82.4	72.1	-6.1%	-22.1%
Payable days	(132.7)	(163.4)	(195.9)	(176.6)	(143.5)	(113.0)	21.5%	19.9%
Cash conversion cycle	248.4	322.2	374.7	555.0	482.6	387.2	22.8%	16.3%
Fixed asset turnover ratio (x)	1.5	1.3	1.3	0.5	0.6	1.4	-7.7%	-4.7%
Total asset turnover ratio (x)	0.6	0.6	0.6	0.2	0.3	0.7	-2.4%	7.6%
Current ratio (x)	1.1	1.3	1.4	1.5	1.6	1.6	12.2%	10.8%
Quick ratio (x)	0.7	0.8	0.8	0.9	0.9	0.9	7.4%	-3.6%
Total debt (Rs.)	410.1	329.6	254.1	289.4	244.2	244.2	-21.3%	-22.9%
Net debt (Rs.)	369.7	277.9	234.6	264.7	221.7	221.7	-20.3%	-15.6%
Debt to equity (x)	1.4	1.1	0.6	0.8	0.5	0.5	-31.4%	-40.6%
Net debt to EBITDA (x)	7.6	4.6	2.1	9.2	3.5	1.5	-47.7%	-54.6%
RoE (%)	-5.2%	1.7%	13.2%	1.3%	6.8%	17.4%	1,842 bps	1,147 bps
RoA (%)	-1.9%	0.7%	6.9%	0.6%	4.0%	10.1%	876 bps	618 bps
RoCE (%)	3.4%	9.1%	18.6%	3.8%	9.4%	23.0%	1,513 bps	949 bps

Note: Pre-IPO financial and ratios; Source: Choice Equity Broking



Competitive strengths:

- High barriers of entry
- Established market leader in the Indian wine sector with the leading brand “Sula”
- Largest wine producer in India with the widest and innovative product offering supported by an efficient production mechanism
- Largest wine distribution network and sales presence
- Secured supply of raw material with long-term contracts exclusive to Sula
- Leader and pioneer of the wine tourism business in India
- Early adoption and focus on sustainability
- Experienced board, qualified senior management team

Business strategy:

- Continuous focus on the own brands
- Focus on premiumization of product portfolio
- 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
- Continue to make sustainability and climate change readiness the heart of long term strategy
- Pursue strategic investments and acquisitions to further consolidate the Indian wine sector
- Continue to expand the wine tourism business



Risk and concerns:

- Unfavorable government policies & regulations
- Continued poor per capita consumption of wine
- Difficulty in further penetrating into Tier-1 and 2 cities
- Adverse climatic conditions impacting the cultivations of grapes
- Delay in expanding the capacity
- Business seasonality
- Difficulty in maintaining current profitability
- Competition

Financial statements:

Consolidated profit and loss statement (Rs. cr)								
	FY20	FY21	FY22	H1 FY22	H1 FY23	TTM	CAGR over FY20 - 22	Annual growth over FY21
Revenue from operations	521.6	418.0	453.9	159.2	224.1	518.8	-6.7%	8.6%
Cost of materials consumed	(109.3)	(66.9)	(111.4)	(21.3)	(20.6)	(110.7)	1.0%	66.5%
Purchase of stock-in-trade	(132.5)	(75.2)	(20.4)	(7.2)	(11.7)	(25.0)	-60.7%	-72.8%
Changes in inventories of finished goods, stock-in-trade and work-in-progress	14.3	(15.4)	14.7	(11.9)	(16.5)	10.1	1.3%	-195.6%
Excise duty	(36.4)	(32.0)	(29.5)	(11.9)	(11.8)	(29.3)	-10.0%	-7.9%
Gross profit	257.8	228.5	307.3	106.9	163.5	363.9	9.2%	34.5%
Employee benefits expense	(65.7)	(55.5)	(65.3)	(30.3)	(37.1)	(72.2)	-0.3%	17.8%
Selling, distribution and marketing expense	(52.5)	(46.7)	(44.5)	(16.0)	(24.6)	(53.1)	-7.9%	-4.6%
Other expenses	(90.6)	(65.3)	(84.1)	(31.9)	(39.2)	(91.5)	-3.7%	28.7%
EBITDA	48.9	61.0	113.3	28.7	62.6	147.2	52.2%	85.8%
Depreciation and amortization expenses	(35.0)	(25.7)	(23.6)	(11.7)	(12.6)	(24.4)	-17.9%	-8.1%
EBIT	13.9	35.3	89.7	17.0	50.0	122.7	153.7%	154.3%
Finance costs	(32.9)	(33.4)	(22.9)	(12.7)	(10.5)	(20.7)	-16.5%	-31.3%
Other income	1.6	3.6	2.8	1.3	1.7	3.2	33.6%	-21.6%
Exceptional items		(2.2)				0.0		
PBT	(17.4)	3.2	69.5	5.6	41.3	105.2		2082.6%
Tax expenses	1.5	(0.2)	(17.4)	(1.1)	(10.7)	(27.0)		
PAT before minority interest	(15.9)	3.0	52.1	4.5	30.5	78.1		16.3
Minority interest	0.3	(0.0)				0.0		
Reported PAT	(15.7)	3.0	52.1	4.5	30.5	78.1		1644.4%
Adjusted PAT	(15.7)	5.2	52.1	4.5	30.5	78.1		896.9%

Consolidated balance sheet statement (Rs. cr)								
	FY20	FY21	FY22	H1 FY22	H1 FY23	TTM	CAGR over FY20 - 22	Annual growth over FY21
Equity share capital	15.0	15.1	15.7	15.4	16.3	16.3	2.2%	4.2%
Other equity	284.9	289.7	379.5	328.9	432.9	432.9	15.4%	31.0%
Minority interest	2.4					0.0		
Non current borrowings	99.0	99.3	82.1	95.4	78.7	78.7	-8.9%	-17.3%
Non current lease liabilities	18.7	10.0	6.2	8.7	7.8	7.8	-42.2%	-37.6%
Non current provisions	8.1	10.0	2.0	11.8	3.1	3.1	-50.5%	-80.0%
Net deferred tax liabilities	17.6	16.0	16.9	14.8	16.2	16.2	-2.0%	5.5%
Trade payables	82.7	58.3	67.4	39.5	38.9	38.9	-9.7%	15.6%
Current borrowings	269.3	201.9	146.8	167.1	135.9	135.9	-26.2%	-27.3%
Current lease liabilities	5.8	3.9	4.7	4.6	4.6	4.6	-9.7%	21.7%
Other current financial liabilities	17.3	14.5	14.2	13.7	17.0	17.0	-9.4%	-1.7%
Current provisions	1.9	1.3	2.7	2.2	3.0	3.0	19.7%	109.8%
Current net tax liabilities		1.3	1.5		0.1	0.1		14.4%
Other current liabilities	8.3	16.8	18.7	15.5	16.3	16.3	49.6%	11.2%
Liabilities of a disposal group classified as held for sale		13.6				0.0		
Total liabilities	831.0	751.6	758.6	717.5	771.0	771.0	-4.5%	0.9%
Property, plant and equipment	326.3	304.0	344.4	309.6	341.2	341.2	2.7%	13.3%
Intangible assets	2.0	1.2	6.7	6.9	6.4	6.4	82.3%	458.8%
Right-of-use assets	23.7	12.5	9.3	11.8	10.8	10.8	-37.3%	-25.7%
Capital work-in-progress	0.1	0.1	1.0	2.5	11.9	11.9	182.3%	815.9%
Goodwill	2.7	0.0	0.9	0.9	0.9	0.9	-43.7%	7663.6%
Non current investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.0%
Non current loans	1.1	1.1	1.9	1.3	2.1	2.1	31.4%	76.2%
Other non current financial assets	18.9	21.8	21.0	16.0	38.0	38.0	5.4%	-3.9%
Non current net deferred tax assets	0.0					0.0		
Non current net tax assets	8.8	0.1	0.2	1.3	0.2	0.2	-84.5%	51.8%
Other non current assets	4.4	3.7	2.7	4.1	7.8	7.8	-21.5%	-28.3%
Inventories	171.3	143.9	162.3	133.3	147.3	147.3	-2.7%	12.7%
Trade receivables	151.7	123.6	109.4	120.5	102.5	102.5	-15.1%	-11.5%
Current investment	0.1					0.0		
Cash and cash equivalents	40.3	51.8	19.6	24.7	22.5	22.5	-30.3%	-62.2%
Current loans	2.4	1.1	1.2	1.2	1.5	1.5	-30.6%	1.4%
Other current financial assets	65.2	46.9	73.6	63.5	70.3	70.3	6.3%	57.0%
Other current assets	12.1	7.5	4.5	10.2	7.7	7.7	-38.9%	-39.7%
Non-current assets and assets of a disposal group classified as held for sale		32.1		9.7		0.0		
Total assets	831.0	751.6	758.6	717.5	771.0	771.0	-4.5%	0.9%

Note: Pre-IPO financials; Source: Choice Equity Broking

Financial statements (Contd...):

Consolidated cash flow statement (Rs. cr)								
	FY20	FY21	FY22	H1 FY22	H1 FY23	TTM	CAGR over FY20 - 22	Annual growth over FY21
Cash flow before working capital changes	54.3	64.3	118.4	28.1	63.7	154.0	47.6%	84.1%
Working capital changes	1.8	48.1	(14.3)	(7.9)	(24.8)	(31.1)		
Cash flow from operating activities	44.7	119.5	87.4	15.4	26.3	98.4	39.9%	-26.8%
Purchase of fixed assets and CWIP	(45.3)	(16.5)	(55.0)	(14.2)	(21.7)	(62.5)	10.1%	234.2%
Cash flow from investing activities	(44.0)	(21.7)	(56.8)	(23.7)	(19.7)	(52.8)	13.7%	161.7%
Cash flow from financing activities	33.4	(94.5)	(61.3)	(16.6)	(3.1)	(47.8)		-35.2%
Net cash flow	34.0	3.4	(30.6)	(24.9)	3.5	(2.2)		
Opening balance of cash	3.4	37.5	40.8	40.8	10.2	15.9	245.2%	8.9%
Closing balance of cash	37.5	40.8	10.2	15.9	13.7	13.7	-47.9%	-75.1%

Consolidated financial ratios						
Particulars	FY20	FY21	FY22	H1 FY22	H1 FY23	TTM
Profitability ratios						
Revenue growth rate (%)		-19.9%	8.6%		40.8%	
Gross profit growth rate (%)		-11.4%	34.5%		53.0%	
Gross profit margin (%)	49.4%	54.7%	67.7%	67.2%	73.0%	70.1%
EBITDA growth rate (%)		24.6%	85.8%		117.8%	
EBITDA margin (%)	9.4%	14.6%	25.0%	18.1%	27.9%	28.4%
EBIT growth rate (%)		153.0%	154.3%		194.4%	
EBIT margin (%)	2.7%	8.4%	19.8%	10.7%	22.3%	23.7%
Restated adjusted PAT growth rate (%)			896.9%		573.3%	
Restated adjusted PAT margin (%)	-3.0%	1.3%	11.5%	2.8%	13.6%	15.1%
Turnover ratios						
Inventories turnover ratio (x)	3.0	2.7	3.0	1.2	1.5	3.5
Trade receivable turnover ratio (x)	3.4	3.0	3.9	1.3	2.2	5.1
Accounts payable turnover ratio (x)	6.3	5.9	7.2	4.0	5.8	13.3
Fixed asset turnover ratio (x)	1.5	1.3	1.3	0.5	0.6	1.4
Total asset turnover ratio (x)	0.6	0.6	0.6	0.2	0.3	0.7
Return ratios						
RoIC (%)	3.1%	8.1%	14.1%	3.0%	7.3%	18.0%
RoE (%)	-5.2%	1.7%	13.2%	1.3%	6.8%	17.4%
RoA (%)	-1.9%	0.7%	6.9%	0.6%	4.0%	10.1%
RoCE (%)	3.4%	9.1%	18.6%	3.8%	9.4%	23.0%
Per share data						
Restated adjusted EPS (Rs.)	(1.9)	0.6	6.2	0.5	3.6	9.3
DPS (Rs.)	0.5	0.0	4.6	1.0	2.1	5.7
BVPS (Rs.)	35.6	36.2	46.9	40.9	53.3	53.3
Operating cash flow per share (Rs.)	5.3	14.2	10.4	1.8	3.1	11.7
Free cash flow per share (Rs.)		0.6	2.0		1.5	
Dividend payout ratio	-28.8%	0.0%	74.9%	189.1%	56.6%	61.1%

Note: Pre-IPO financial ratios; Source: Choice Equity Broking

IPO rating rationale

Subscribe: An IPO with strong growth prospects and valuation comfort.

Subscribe with Caution: Relatively better growth prospects but with valuation discomfort.

Avoid: Concerns on both fundamentals and demanded valuation.

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