

The Issue	
Type of Issue	Share Aggregating Upto Rs. Mn
Fresh Issue	-
Offer for Sale*	9,603
Total	9,603

*At Upper Price Band

Issue Break-Up	
Reservation for	% of Issue
QIB	50%
NIB	15%
Retail	35%
Total	100%

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	12 Dec, 2022
Bid/Offer Closing Date	14 Dec, 2022
Finalization of the Basis of Allotment	19 Dec, 2022
Credit of shares	21 Dec, 2022
Initiation of refunds	20 Dec, 2022
Listing Date	22 Dec, 2022

Use of Proceeds
To achieve the benefits of listing on stock exchange

General Information	
Manager	IIFL Securities Ltd, CLSA India Pvt Ltd, & Kotak Mahindra Capital Co. Ltd
Registrar	KFin Technologies Ltd

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Company Overview:

Sula is India’s largest producer and seller of wine with ~52% share in FY2022. The company is recognized as the category creator for wines in India, having many firsts to its credit, such as the first wine tasting room, the first vineyard resort, and the first wine music festival in India. It has a diverse product portfolio, straddling the entire price pyramid, and is the market leader across all categories. Their business can be broadly classified in two categories (1) “Wine business” that includes production, import and distribution of wines and spirits and (2) “Wine Tourism business” that includes sale of services from ownership and operation of wine tourism venues. At present, Sula produces 56 different labels of wine at four owned and two leased production facilities located in Maharashtra and Karnataka.

Important Highlights:

- Sula is the market leader across all four price segments (popular, economy, premium and elite) and across wine variants (red, white, rose and sparkling).
- During FY2009-21, Sula increased its market share to 52% from 33% in the 100% grape wine category.
- The company is setting up 6ml of seller capacity through internal accruals to cater to future demand for its product.
- Focus on localization of packaging materials (**99%** of glass bottle in India vs **50%** 3 years ago).

Valuation:

Sula Vineyards Ltd is India’s largest producer and seller of wine with market leadership both in terms of value and volume. The company’s owned brand contribution has been steadily increasing from 63.6% in FY20 to 83.9% in FY22. The management would continue to focus on increasing contribution of Owned brands going ahead. The management would also focus on upgrading consumer to its premium brand to increase the share of high margin segments in revenues.

We believe, Sula is on growth trajectory on account of **(1)** strong brand equity and distribution network **(2)** dominant market position **(3)** long-term supply contracts for raw material procurement, and **(4)** premiumization.

At the upper price band of Rs.357, the stock is trading at 57.7x FY22 P/E. We assign a “Subscribe” rating to the stock.

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

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. 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 Sula as their “Own Brands” (Currently, their 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 their total revenue from operations) from 33% in FY09 in 100% grapes wine category to 52% in FY22. They have leveraged their digital and social media presence as an effective tool of communication with their consumers by engaging with social media influencers. They have seen this engagement increase their brand reach to a much wider and newer audience, especially resonating with younger demographics.

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

Sula has 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 FY09 crossing 50% market share by value in the domestic 100% grapes wine market in FY12. 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. Sula aims 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. The demand for wines in urban and semi-urban areas of India is on the rise, and Sula has with their extensive experience, tailored specific capabilities across product development, marketing, technology, supply chain, fulfilment, and consumer service, sought to create a differentiated ecosystem for their consumers. They launched a total of 7 labels under their brands 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. Sula is the first to introduce varietal wines in India in 2003, with their Sauvignon Blanc, Chenin Blanc, Zinfandel, Riesling, Red Spar-

Key Strengths

ling, and dessert wine offerings, and were also the first to adopt the use of refrigerated stainless steel tanks for the production of their wines, which revolutionized tropical winemaking. They also introduced the 'Charmat' method for producing sparkling wines, which enables them to produce their wines faster and more efficiently. Also, they introduced screwcaps on wine bottles in 2006. Their product portfolio of 56 domestic wines labels and 21 imported alcoholic beverage labels comprising wines and spirits, serves a large cross-section of customers. They have been the market leader in terms of range of labels across price segments with more than 50 wine labels. Their Shiraz Cabernet has been the top selling wine in the domestic 100% grape wine market since 2016; Sula Shiraz Cabernet, Sula Chenin Blanc, Sula Zinfandel Rosé and Sula Brut are India's best-selling red, white, rosé and sparkling, respectively, for FY21. They introduced red-sparkling wine in India and have also been the pioneer in introducing canned wine in 2020 under their brand 'Dia'. Canned wine in India has the potential to build a new wine on the go segment.

Largest wine distribution network and sales presence

As of September 30, 2022, Sula has the presence in 25 states and 6 union territories in India. They also entered the overseas markets in 2003, and currently offer their wines in over 20 countries, including Spain, France, Japan, the United Kingdom, and the United States. Their widespread sales and distribution platform enables their products to reach their consumers ensuring consistent availability. With access to more than 23,000 points of sale (including over 13,500 retail touchpoints and over 9,000 hotels, restaurants, and caterers) as of March 31, 2022, their products have a high visibility and availability across the country. Their products are available through their distributors, at various points of sale such as general trade (which includes traditional retail points, such as licensed alcohol and wine shops through distributors and stockists), hotels, restaurants, cafes, and modern trade channels which includes e-commerce platforms and select supermarkets across India. They also have a strong direct to consumer selling channel at their wine tourism facilities in Nashik and Bengaluru with an average sale of approximately 225,000 bottles (units of 1500ml, 750ml, 375ml bottles sold or served to consumers at their outlets in these facilities) each year over the last 3 financial years. Not only they are the leaders in the On-trade channels, but also recorded the highest Off-trade sales in the last 3 years with their Off-trade sales contributing 72.25% of the secondary sales during FY22 as compared to 61.33% in

Key Strengths

FY20. For the H1FY23, the contribution from the Off-trade sales was 70.75% of the secondary sales as compared to 72.95% in H1FY22.

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% of the overall wine market in India. As of June 30, 2022, they had access to close to 2,521 acres of vineyards, which is significantly higher than the 2nd largest wine company in the Indian market at close to 460 acres. Of these 2,521 acres, they have entered into long-term supply arrangements (of up to 12 years) with contract farmers for approximately 2,290 acres. Such long-term supply arrangements cover more than 90% of their annual supply of wine grapes, and they intend to continue expand their wine grape supply via long term contracts with third-party farmers. They have a dedicated outreach team that trains farmers in the latest viticulture practices and closely monitor vineyard activities to ensure quality production. Given their technical knowhow and support, and market leading reputation, farmers prefer entering into and renewing such long-term contracts with them.

Continuous focus on the Own Brands

The company's main strategies is to continue focusing on their Own Brands over Third-Party Brands that they import and distribute. They made a clear shift towards focussing on their Own Brands in FY20, which got further accelerated by the COVID-19 pandemic. Sales of their Own Brands accounted for 85.49%, 82.75% and 83.91% of the revenue from operations for H1FY23 and H1FY22, and Fiscal 2022, respectively, as compared to 63.57% in FY20, when they 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 their 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, they launched "The Source" brand with 4 labels in FY18, FY19, FY20 and FY22, and undertook a rebranding of their "RASA" brand in FY22. They launched a total of 7 labels under their 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 FY21. The company has been successful in consistently raising the prices of their wines by 6% on an average from FY19 to FY22. They also witnessed a consistent growth in sales volume in their "Elite" and "Premium" categories from 393,878 cases sold in FY20 to 442,833 cases sold in FY22, signifying a greater demand for premium wines in the Indian wine market. They sold 214,153 cases in the H1FY23 as compared to 153,579 cases in H1FY22. Additionally, they also import and distribute 20 international labels (18 wine labels, 2 Vodka Labels and 1 brandy label) (collectively the "Third Party Brands"), which are priced in line with their 'Elite' category. Their combined sales revenue in the 'Elite' and 'Premium' segments contributed 70.53%, 69.67%, 70.57%, 68.58% and 67.81% of their revenue from their Own Brands for the 6 months period ended September 30, 2022 and September 30, 2021, and FY22, FY21 and FY20, respectively. A key driver of their consumer strategy is catering to different target consumers across various price points and enabling them to upgrade to higher value products.

Increasing wine awareness and consumption as well as penetrating into Tier-1 and 2 cities

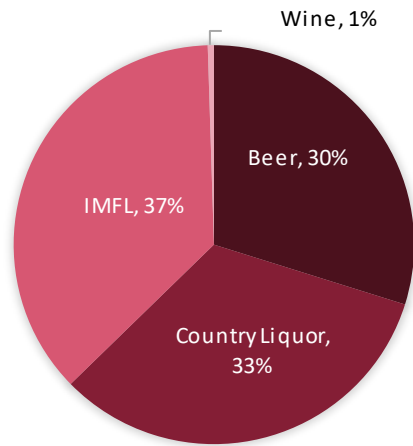
The majority of wine consumers are from the top urban centres in India, with Mumbai, Bengaluru, Delhi NCR, Pune, and Hyderabad contributing more than 70% of the overall market. Their strategy is to increase their focus on the under penetrated markets in major Metros like Chennai and Kolkata, the tourist markets of Kerala, Rajasthan and Goa, and other Tier-1 and 2 cities across India. Additionally, with 'Dia', they seek to achieve greater market penetration due to increased accessibility of aluminium cans, being single serve offerings at a lower average selling price. Company's distribution network enables them to increase the availability and visibility of their brands. They seek to continue to focus on increasing sales volumes in their geographies by expanding their distribution network, optimizing their distribution operations and increasing product supply to the under-penetrated markets. They intend to further expand their distribution platform by engaging additional distributors, consolidating existing distributors and increasing the number of distributors in these under-penetrated markets. These measures will enable them to increase the availability of their products which will in turn increase brand awareness and revenue.

Pursue strategic investments and acquisitions to further consolidate the Indian wine industry

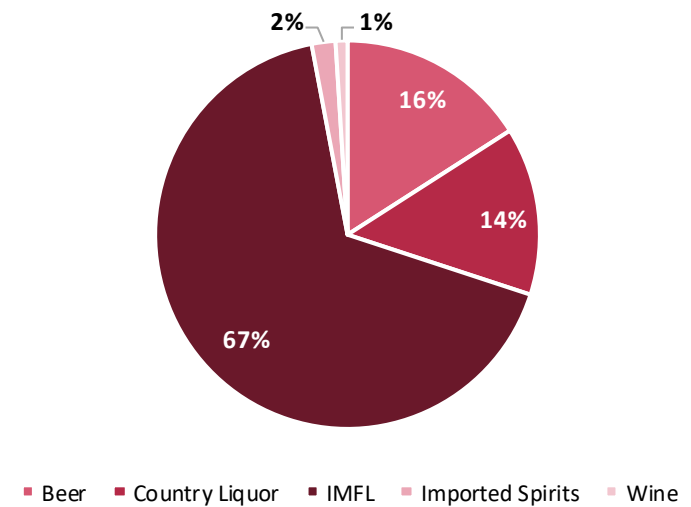
Sula has demonstrated record in acquiring and successfully integrating companies and teams over the last few years, with 2 significant acquisitions in the last 5 years. Through these acquisitions, they seek to consolidate their position further in the Indian wine market, increasing their scale and market share. Their acquisitions of the brands and assets of Heritage Winery and York Winery in FY17 and FY22, respectively, are testament to this. In particular, the acquisition of Heritage was strategic, providing Sula with their first owned manufacturing facility in Karnataka, allowing them to avail the benefit of significantly lower duties on the sale of their wines in Karnataka and offering growth potential to increase their Wine Tourism Business.

Industry Overview

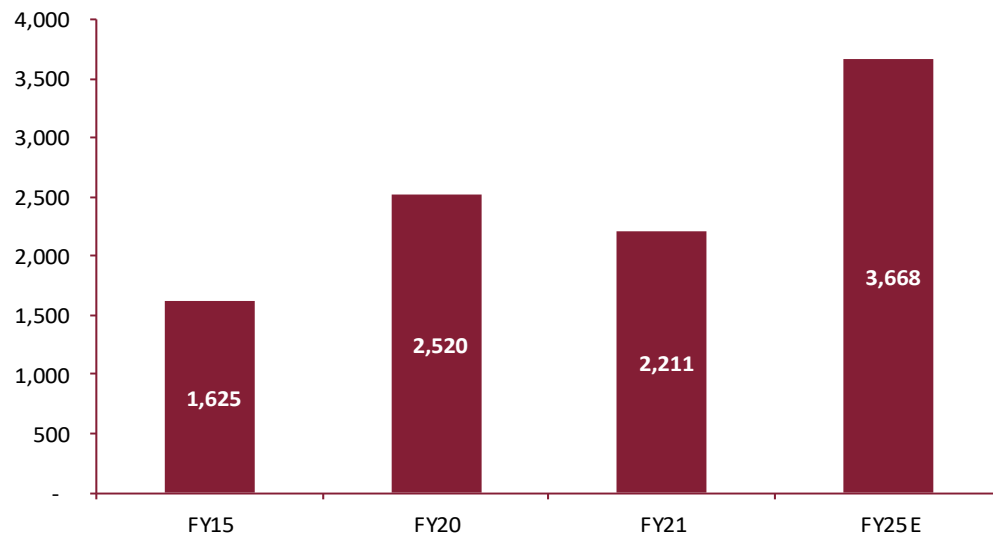
Alcohol consumption by volume in India, FY22



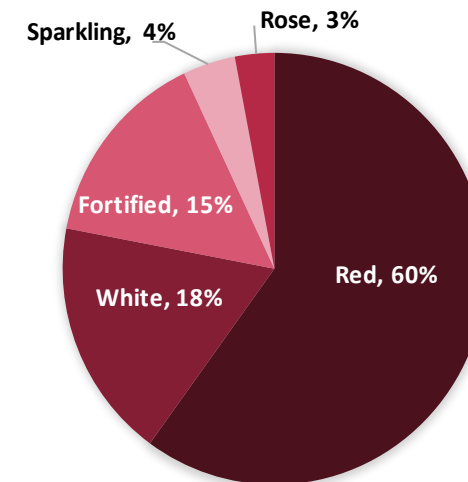
Alcohol consumption by value in India, FY22



Size of India alco-beverages market by value (Rs in Bn)

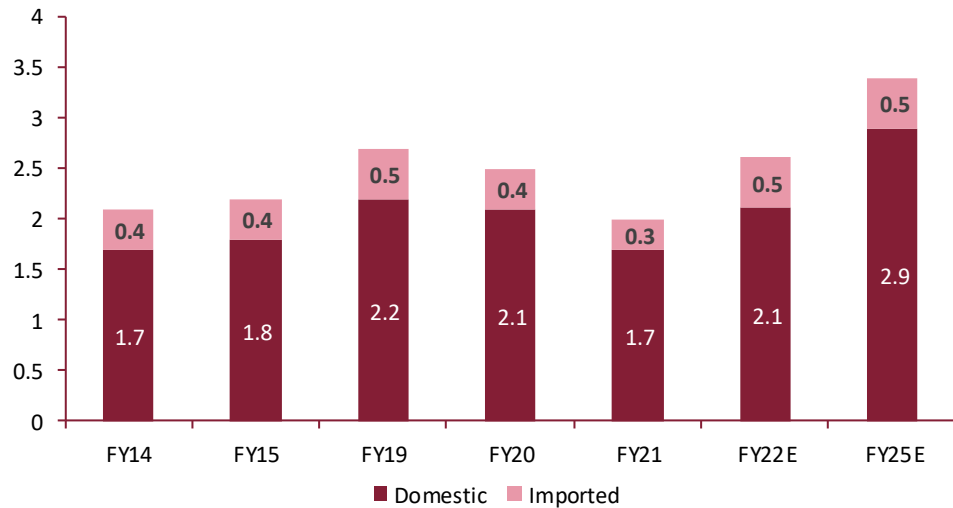


Split of domestic wine market by volume, FY20

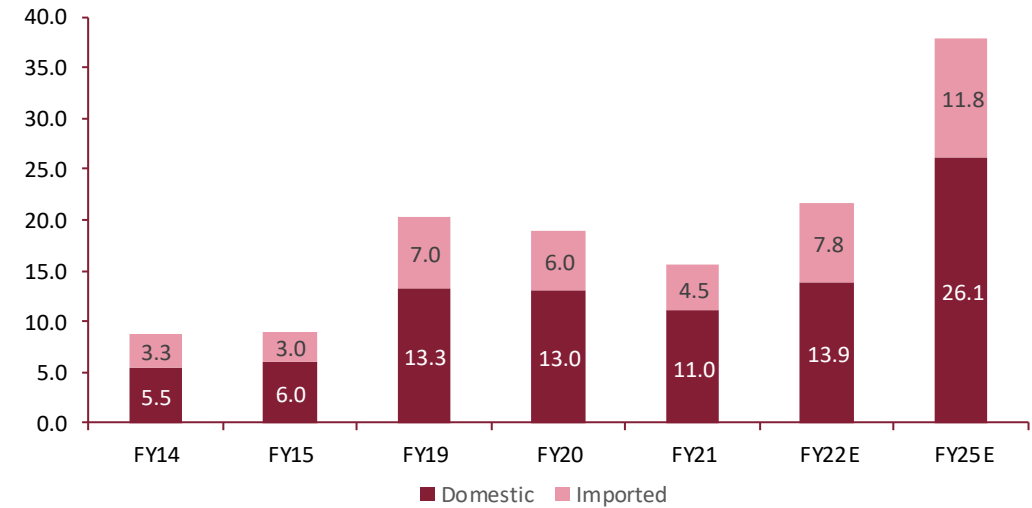


Industry Overview

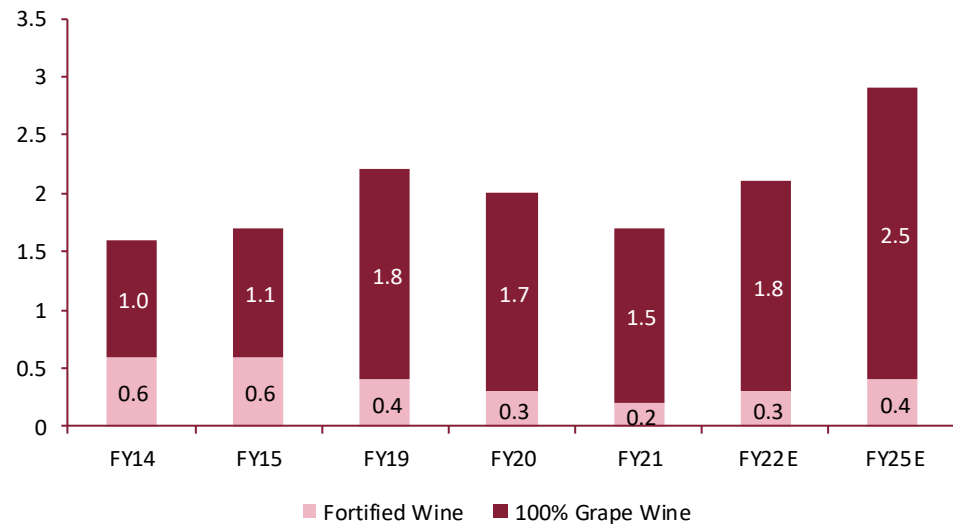
Wine consumption by volumes in India (Mn Cases)



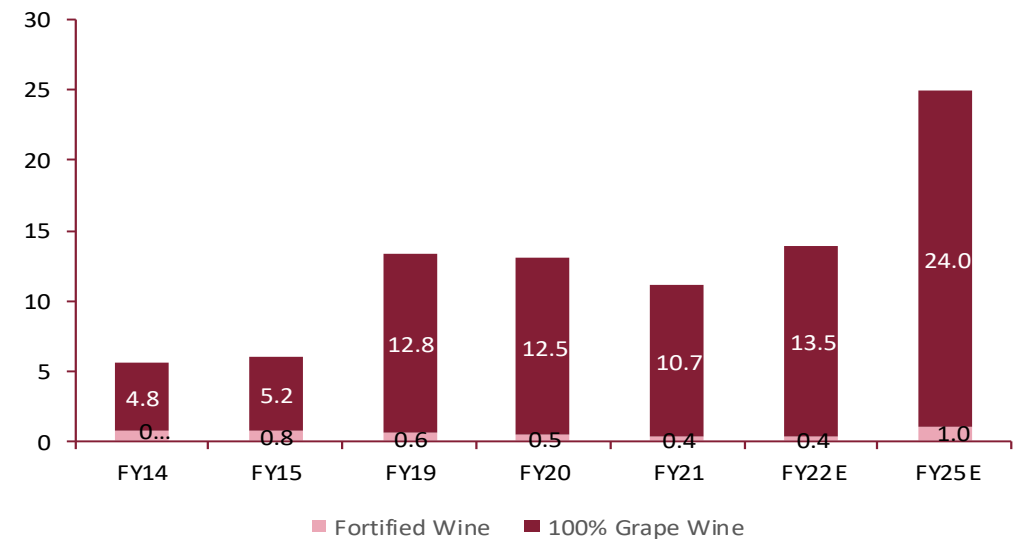
Wine consumption by values in India (Rs in Bn)



Fortified vs 100% grape wine market by volume in India (Mn Cases)



Fortified vs 100% grape wine market by value in India (Rs in Bn)

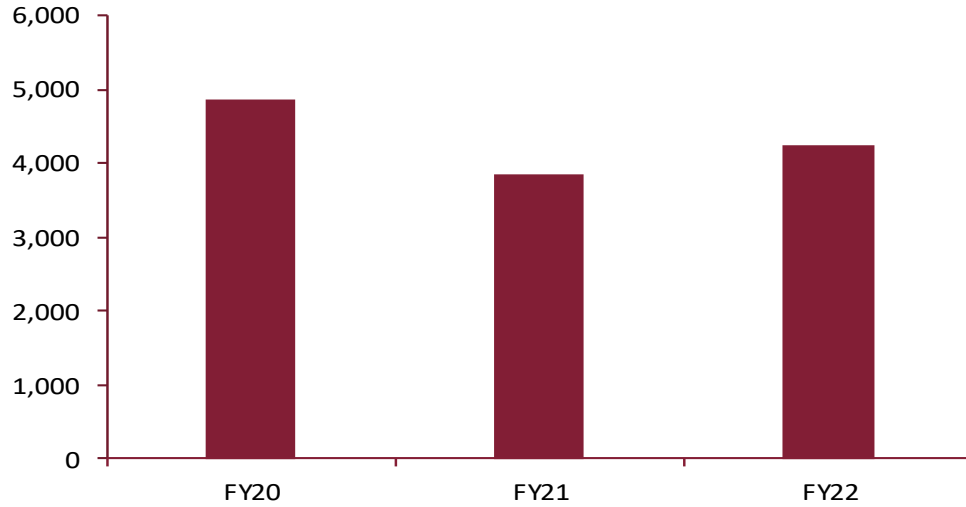


Key Risk

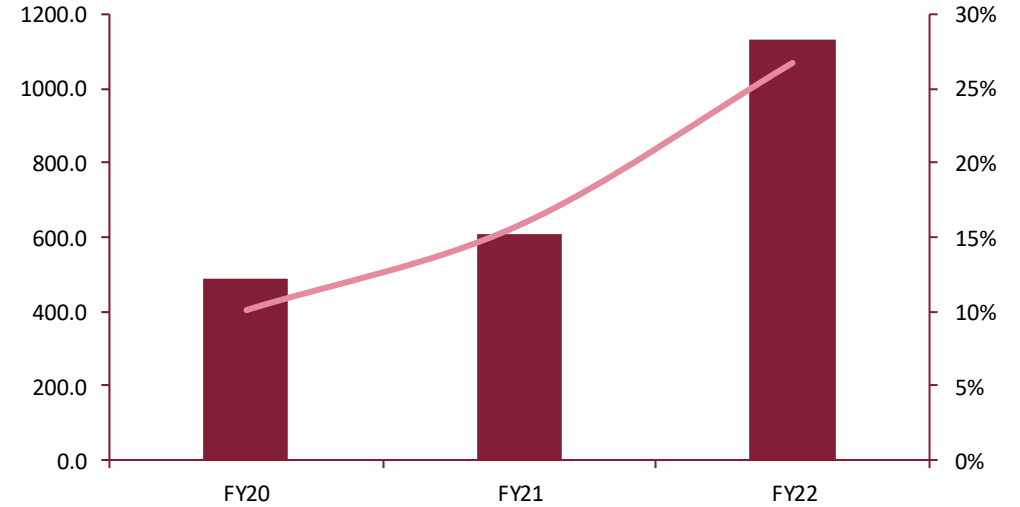
- **Change in regulations:** The manufacturing and distribution of wine is subject to a complex and diverse tax structure by both the government of India and various state governments in India. Sula's business and financial performance could be adversely affected by unfavorable changes in laws, rules, and regulations. Such laws include prohibition laws, licensing requirements, labeling restrictions and restrictions on advertising.
- **Regulated pricing:** Sula can adjust the retail prices of its products only after receiving approvals from the state governments (including the respective excise departments) in certain states where the wine market is price controlled, including but not limited to Delhi, Telangana, Tamil Nadu, Odisha, Andhra Pradesh, and Kerala. If the company is unable to increase its revenues sufficiently to offset raw material inflation, it could have an adverse effect on its business.
- **Adverse climatic conditions:** The adverse climatic conditions might impact the quality of grapes procured which could disrupt the supply of grapes and materially affect their business.

Financial Story

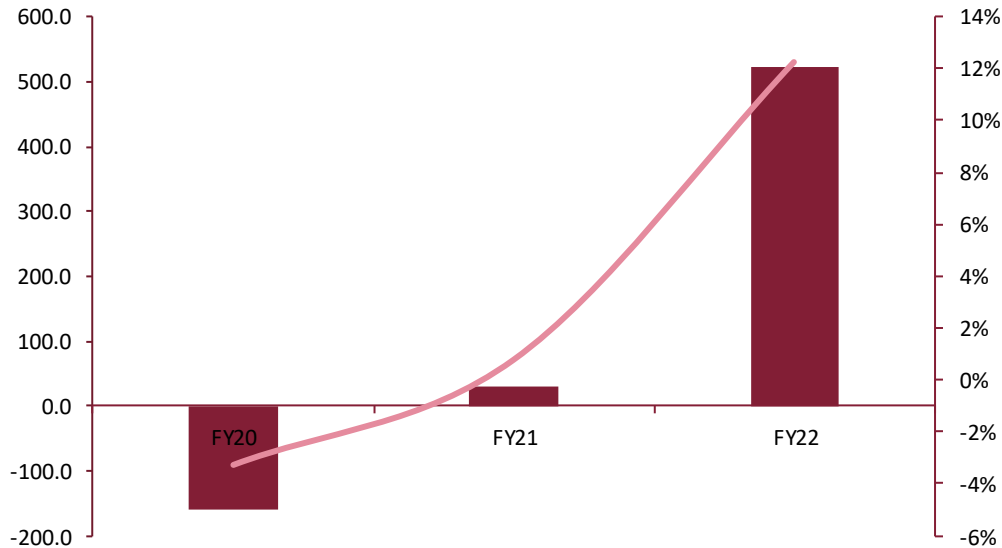
Revenue (Rs. Mn)



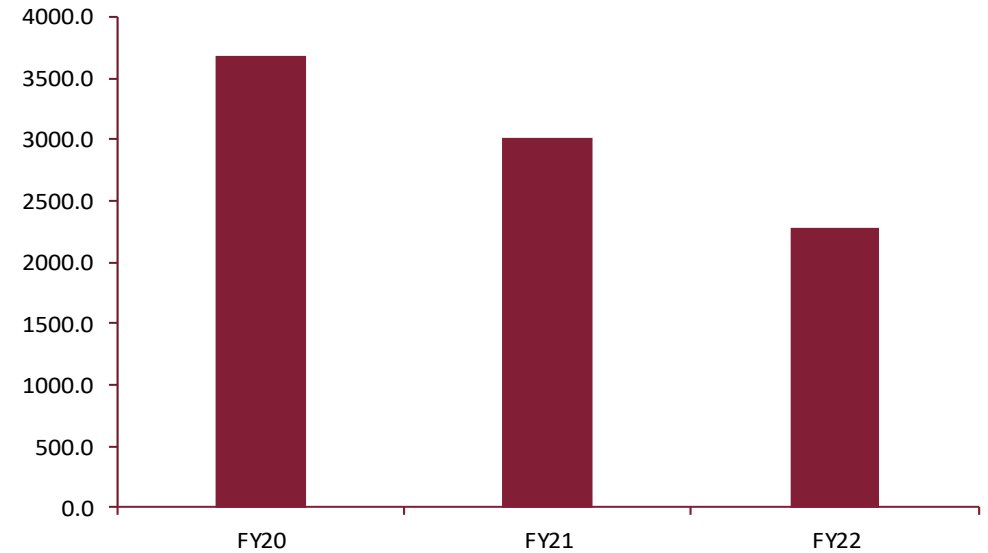
EBITDA (Rs Mn) & Margins (%)



PAT (Rs. Mn) & Margins (%)



Total Debt (Rs. Mn)



INDSEC Rating Distribution

BUY : Expected total return of over 15% within the next 12-18 months.

HOLD : Expected total return between 0% to 15% within the next 12-18 months.

SELL : Expected total return is negative within the next 12-18 months.

NEUTRAL: No investment opinion, stock under review.

Note: Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

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DISCLOSURE

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