

IPO Flash

December 09, 2022

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Sula Vineyards Ltd

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IPO Details:	
Issue opens	Monday, December 12, 2022
Issue closes	Wednesday, December 14, 2022
Issue size	Rs. 915 - 960 crore
Type of issue	Offer For Sale (OFS) of 2.69 crore shares
Offer size	OFS of Rs. 915-960 crore
Face value	Rs. 2 per share
Price band	Rs. 340-357
Bid lot	42 shares
QIB portion	Not more than 50% of the offer
Non Institution portion	Not less than 15% of the offer
Retail portion	not less than 35% of the offer

Source: Company RHP; Sharekhan Research

Sula Vineyards Ltd (Sula) is coming out with an initial public offer (IPO), consisting of an OFS with total issue size of Rs. 915-960 crore. The price band for the said issue is Rs. 340-357 per share. OFS is of 2.69 crore shares.

Offer for share details

Seller	No. of Shares
Promoter	
Sajeev Samant	9,37,203
Investor & other	
Investor selling shareholders	2,19,71,700
Other selling shareholders	39,91,627
Total OFS	2,69,00,530

Source: Company RHP

Shareholding pattern

Shareholder	Pre-issue		Post-issue	
	No of shares	Holding (%)	No of shares	Holding (%)
Promoters	2,39,45,864	28.4	2,30,08,661	27.3
Public	6,02,52,884	71.6	6,11,90,087	72.7
Total	8,41,98,748	100.0	8,41,98,748	100.0

Source: Company RHP

About the company

Sula Vineyards Limited (Sula) is India's largest wine producer and seller as of March 31, 2022. The company is the market leader across all four price segments (Elite, premium, economy and popular) and also the market leader across all the wine variants (Red, white and sparkling wines).

The company's business is broadly classified under two categories (i) wine production, the import of wines and spirits, and the distribution of wines and spirits (Wine Business); and (ii) Sale of services from ownership and operation of wine tourism venues, including vineyard resorts and tasting rooms (Wine Tourism Business).

Currently, the company produces 56 different labels of wine at four owned and two leased production facilities located in Maharashtra and Karnataka. The company has entered into long-term supply arrangements (of up to 12 years) with grape growers for ~2,290 acres as of September 30, 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 distribution platform included over 50 distributors, 11 corporations, 14 licensed resellers, seven company depots, and three defence units as of September 30, 2022. The company also has over 23,000 points of sale (including over 13,500 retail touchpoints and over 9,000 hotels, restaurants and caterers) as on March 31, 2022. The company also has a strong direct-to-consumer (D2C) selling channel primarily through the Wine Tourism Business facilities in Nashik and Bengaluru.

Sula's brands and labels across categories

Category	Brands	Labels
Elite (₹950+)	Sula	Brut, Brut Tropicale, Sparkling Shiraz, Riesling, Late Harvest Chenin Blanc
	Dindori	Viognier, Chardonnay, Shiraz
	RASA	Syrah, Cabernet Sauvignon, Zinfandel
	The Source	Cabernet Sauvignon, Grenache Rosé, Sauvignon Blanc, Moscato, Chenin Blanc Reserve
	York	Arros, York Late Harvest Chenin Blanc, H Block Chardonnay, Sparkling Rosé, Sparkling Cuvée
Premium (₹700-950)	Sula	Shiraz Cabernet, Zinfandel Red, Chenin Blanc, Sauvignon Blanc, Zinfandel Rosé, Seco, Seco Rosé
	Satori	Satori
	York	York Shiraz, York Cabernet Merlot, York Chenin Blanc, York Sauvignon Blanc, York Rosé
Economy (₹400-700)	York	All Rounder Red, All Rounder White
	Dia	Dia Red, Dia White
	Kadu	Cabernet Shiraz, Chenin Blanc, Shiraz Rosé
	Port Gold/1000	Port Gold
	Madera	Madera Red, Madera White, Madera Rosé
	Mosaic	Mosaic Red, Mosaic White
Popular (<₹400)	York	Manthan Red, Manthan White, G9 Port, G9 Premium Port, White Port
	Heritage	Heritage Red
	Port Gold/1000	Port 1000
	Samara	Samara Red, Samara White

Source: Company RHP

Brief profile of directors & top management

- ♦ **Rajeev Samant** is the Promoter, Managing Director and Chief Executive Officer. He holds a bachelor's degree in economics and a master's degree in science (industrial engineering) from Stanford University, United States of America.
- ♦ **Chetan Rameshchandra Desai** is the Chairman. He is a fellow member of the Institute of Chartered Accountants of India and has experience of over 39 years.
- ♦ **Karan Vasani** is the Chief Wine Maker and Senior Vice President – Vineyard and Winery Operations. He has been working with the company since October 1, 2013 in various capacities. He holds a bachelor's degree in commerce from University of Mumbai and a graduate diploma in viticulture and oenology from Lincoln University, New Zealand.
- ♦ **Chaitanya Rathi** is the Chief Operating Officer. He has been working with the company since December 26, 2006 in various capacities. He holds a Bachelor's degree in science in biotechnology from the University of Mumbai, a master's degree of science in food biotechnology from the University of Strathclyde and a master's degree in business administration from INSEAD.
- ♦ **Bittu Varghese** is the Chief Financial Officer. He has been working with the company since April 25, 2019. He holds a bachelor's degree in commerce from University of Mumbai.
- ♦ **Ruchi Sathe** is the Company Secretary and Compliance Officer. She has been working with the company since April 12, 2021. She holds a bachelor's degree in commerce from University of Mumbai.

Pre-IPO Promoter holding

Promoters & promoter group	% of Pre-IPO of share capital	Total no. of Shares
Promoter		
Sajeev Samant	2,28,58,619	27.2
Promoter group		
Mia Sawant	10,86,245	1.3
RASA Holdings	1,000	#
Total	2,39,45,864	28.4

Source: Company RHP; #Negligible

Industry Overview

- ◆ 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% against the world average of ~13%.
- ◆ Consumption of wine is highest in the developed countries, which is around 30% in Europe. Wine contribution to China's alcohol consumption is 3% but 50x higher than India's consumption.
- ◆ In India around 75% of consumption happens on retail platform (shops) while 25% in HoReCA (hotels/restaurants).
- ◆ Around 84% of wine in India is produced domestically while 16% is imported from international markets.
- ◆ Availability of wine at reasonable price, growth in per capita income, increasing urbanisation, high share of young population as well as increasing preference for wines among women is driving consumption of wine along with growing awareness towards perceiving health benefits.
- ◆ Favourable regulation in Maharashtra, Karnataka and Uttar Pradesh coupled with expected policy announcement in other states provides opportunity for wine market to scale-up fast.
- ◆ India's wine consumption is expected to grow at CAGR of 14.3% over FY2022E-25P (vs. 5.4% over 2010-19) as compared to 7.7% growth expected in overall alcohol consumption in India.
- ◆ India's wine market is expected to grow to 3.9 million cases by 2025P vs. 2.1 million cases in 2021.
- ◆ The Indian wine market can also be divided into four segments based on price, starting with the popular segment with price point up to Rs. 400. The premium and elite segments, with price points above Rs. 700, are driving growth in the market.
- ◆ The premium and elite categories are estimated to contribute close to 61% by value and 40% by volume.

Key strengths

- ◆ **High entry barriers:** India's wine market 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. Sula being the largest manufacturer and seller of wine in India, has an advantage over other players in the country.
- ◆ **Established market leader in the Indian wine industry with leading brand Sula:** The 'Sula' brand is recognized as the market leader across wine variants, including red, white and sparkling wines. Sula is also recognised as the category creator for wines in India. The company's value market share in 100% grapes wine category has increased from 33% in FY2009 to 52% in FY2022.
- ◆ **Secured raw material supply with long-term contracts exclusive to Sula:** As on June 30, 2022, the company had access to ~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 the total acreage, Sula 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.

Vineyard Details

Vineyard	Area under cultivation (in acres)	Installed Capacity FY2021 (volume in '000 liters)	Year of Commencement	Region(s)
Sula Vineyards	2,521	13,938	1998	Nashik, Maharashtra
Grover Vineyards	460	4,700	1988	Nashik, Maharashtra; Nandi Hills, Karnataka
Fratelli Wines	240	1,400	2007	Sholapur, Maharashtra

Source: Company RHP

- ◆ **Largest wine distribution network and sales presence:** As on September 30, 2022, the company has presence in 25 states and 6 union territories in India. Sula also offers its wines in over 20 countries, including Spain, France, Japan, the United Kingdom and the United States. The company's distribution platform included over 50 distributors, 11 corporations, 14 licensed resellers, 7 company depots, 3 defence units as on September 30, 2022, over 23,000 points of sale (including over 13,500 retail touchpoints and over 9,000 hotels, restaurants and caterers) as of March 31, 2022. The company also had 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.

Key concerns

- ◆ **Lack of flexibility in adjusting the retail prices of products as a result of state regulation:** State excise departments typically prefer approving the lowest selling price and there is no assurance that the company will be able to obtain approval from the state governments to increase the retail prices of its products. If the company is unable to increase its revenues sufficiently to offset the increased costs due to inflation, it could have an adverse effect on the company's profitability.
- ◆ **Concentrated buyers:** The company's revenues are dependent upon a limited number of customers (which includes state run corporations, wholesalers and independent distributors). The company's revenue from top five customers for FY2022 and H1FY2023 stood at 37.2% and 35.4%, respectively. Due to a concentration in the buyers, the company's growth is dependent on its relationship with the top five customers. A change in the company's relationship with any of its significant customers could harm the business and reduce sales.
- ◆ **Uncertainty about government grants:** The company has government grants receivable related to the Wine Incentive Promotion Subsidy ('WIPS') scheme launched by Maharashtra. Under the scheme, VAT paid by Group on wine manufactured from grapes produced in Maharashtra and subsequently sold in Maharashtra is eligible for 80% refund. The company being involved in the business of wine manufacturing, avails WIPS incentive. However, the company is not sure about the receivables of this grant.
- ◆ **Seasonality impact:** Any unfavourable weather condition or unseasonal rains in the month of December or January would act as a key risk to production/sales. Hence, the company normally keeps higher inventory during the season of higher grape production.

Key financial highlights

- ◆ Sula's revenues declined by 20.5% y-o-y to Rs. 386 crore in FY21 due to 16% decline in sales volume to 7.17 lakh cases and average blended realisation of Rs. 4,006 per case. FY22 saw strong recovery with 10% increase in revenue led by 25% rise in sales volume to 8.94 lakh cases and average blended realisations of Rs. 4,263 per case. In H1FY23, revenue stood at Rs. 212 crore with sales volume at 4.42 lakh cases and average blended realisation of Rs. 4,334 per case.
- ◆ Gross margins improved to 77% in H1FY23 from 53% in FY20. Substantial increase in the gross margins can be attributed to two factors - Increase in own brand contribution from 67% in FY20 to 94% in H1FY23 and within the own brands, elite contribution has increased from 18% in FY20 to 25% in H1FY23.

- ◆ Consolidated OPM of the business improved to 29.5% in H1FY23 from 10.1% in FY20. Reported PAT stood at Rs. 52.1 crore in FY22, up from Rs. 5.3 crore in FY21. PAT stood at Rs. 31 crore in H1FY23.
- ◆ Debt:equity ratio at comfortable position less than one times despite higher working capital requirement.
- ◆ Cash from operations improved to Rs. 87.4 crore in FY22 from Rs. 44.7 crore in FY20.
- ◆ It has strong return profile with RoE and RoCE standing at 13.2% and 15% in FY22, which is expected to further improve with overall improvement in the profitability in the coming years.

Valuation and view

At the issue price of Rs. 340-357, the stock is trading at 51.3x/53.8x its FY2022 earnings, which is at discount to the large peers. The discount to peers could be justified by risk related to high concentration of buyers and state government grants on VAT contribute to a large part of its profitability. Consequently, the scope for handsome listing gains is limited as of now. However, investors could look at the stock in case of weakness post its listing.

Peer Comparison

Company	Revenues (Rs crore)	OPM (%)	Net Profit (Rs crore)	EPS (Rs.)	RoCE (%)	P/E (x)	EV/ EBITDA (x)	Price to Sales (x)
FY2022								
United Spirits	9,381.7	15.8	911.1	12.5	25.4	74.6	45.4	7.2
United Breweries	5,838.4	12.7	399.8	14.1	10.6	122.8	60.5	7.8
Radico Khaitan	2,868.0	14.0	248.5	19.7	15.1	55.6	36.3	5.1
Sula Vineyards (upper band)	424.4	26.7	52.1	6.6	15.0	53.8	26.7	6.6
Sula Vineyards (lower band)						51.3	25.5	6.3

Source: Company RHP; Sharekhan Research

FINANCIALS
Profit & Loss account

	Rs crore				
Particulars	FY2020	FY2021	FY2022	H1FY22	H1FY23
Gross revenue	521.6	418.0	453.9	159.2	224.1
Excise duty	36.4	32.0	29.5	11.9	11.8
Revenue from operations (net)	485.2	385.9	424.4	147.2	212.3
<i>y-o-y growth (%)</i>		-20.5	10.0		44.2
Cost of material	227.5	157.5	117.1	40.3	48.7
Gross Profit	257.8	228.5	307.3	106.9	163.6
<i>Gross margins (%)</i>	53.1	59.2	72.4	72.6	77.0
Employee expenses	65.7	55.5	65.3	30.3	37.1
Selling, distribution and marketing expense	52.5	46.7	44.5	16.0	24.6
Other expenses	90.6	65.3	84.1	31.9	39.2
Total Expenditure	436.3	325.0	311.1	118.5	149.7
Operating profit/(loss)	48.9	60.9	113.3	28.7	62.6
<i>OPM (%)</i>	10.1	15.8	26.7	19.5	29.5
Other income	1.6	3.6	2.8	1.3	1.7
Finance cost	32.9	33.4	22.9	12.7	10.5
Depreciation	35.0	25.7	23.6	11.7	12.6
PBT	-17.4	5.4	69.5	5.6	41.3
Tax expense	-1.5	0.2	17.4	1.1	10.7
Adjusted PAT/Loss	-15.9	5.3	52.1	4.5	30.5
<i>NPM (%)</i>	-3.3	1.4	12.3	3.1	14.4
Exceptional items	0.0	2.2	0.0	0.0	0.0
Adjusted PAT/Loss	-15.9	3.0	52.1	4.5	30.5

Source: Company RHP

Balance Sheet

	Rs crore				
Particulars	FY2020	FY2021	FY2022	Sep 21	Sep 22
Assets					
Non-current assets					
Property, Plant & Equipment (incl right of use)	349.9	316.5	353.7	321.4	352.0
Capital WIP	0.1	0.1	1.0	2.5	11.9
Goodwill & Other Intangible assets	4.7	1.2	7.5	7.8	7.2
Other financial assets	20.0	22.9	22.9	17.4	40.1
Other non-current assets	13.1	3.9	2.9	5.4	8.0
Current assets					
Inventories	171.3	143.9	162.3	133.3	147.3
Investments	0.1	-	-	-	-
Trade receivables	151.7	123.6	109.4	120.5	102.5
Cash & cash equivalent	37.5	40.8	10.2	15.9	13.7
Bank balance	2.8	11.0	9.4	8.8	8.8
Other financial assets	67.6	48.0	74.8	64.7	71.8
Other current assets	12.1	39.6	4.5	19.9	7.7
Total Assets	831.0	751.6	758.6	717.5	771.0
Equity Capital	15.0	15.1	15.7	15.4	16.3
Other equity	284.9	289.7	379.5	328.9	432.9
	299.9	304.7	395.3	344.3	449.2
Non-controlling interest	2.4	-	-	-	-
Non-current liabilities					
Borrowings	97.5	69.1	54.3	62.4	49.1
Provisions	8.1	10.0	2.0	11.8	3.1
Other non-current liabilities	17.6	16.0	16.9	14.8	16.2
Current liabilities					
Borrowings	295.2	246.0	185.6	213.3	178.0
Trade payables	82.7	58.3	67.4	39.5	38.9
Other liabilities	25.7	46.1	34.4	29.2	33.5
Provisions	1.9	1.3	2.7	2.2	3.1
Total Equity & Liabilities	831.0	751.6	758.6	717.5	771.0

Source: Company RHP

Cash flow statement

Particulars	Rs crore				
	FY2020	FY2021	FY2022	H1FY22	H1FY23
Net cash generated from operating activities	44.7	119.5	87.4	15.4	26.3
Net cash generated from investing activities	-44.0	-21.7	-56.8	-23.7	-19.7
Net cash generated from financing activities	33.3	-94.5	-61.3	-16.6	-3.1
Net increase/(decrease) in cash and cash equivalent	34.0	3.4	-30.6	-24.9	3.5
Cash at the beginning of the year	3.4	37.5	40.8	40.8	10.2
Cash and cash equivalent at end of the year	37.5	40.8	10.2	15.9	13.7

Source: Company RHP

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