Sula Vineyards

Vineyaard & Wineries | India

IPO | 11 December 2022

The Largest Wine Brands in India

About the Company

Sula Vineyards (Sula) is India's largest wine producer which has increased the market share in Grapes Wine from 33% in FY09 to 52% in FY22. Sula has wide distribution platform 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 FY22. The company is coming out with an IPO comprising fully OFS of ~26.9mn shares, aggregating a total of Rs9.6bn.

Strong Products Categories

The company is market leader across products points from being Elite (Rs950+), Premium (Rs700-950), Economy (Rs400-700) and Popular (<Rs400), with a higher share of ~61% by value in the Elite and Premium categories in FY22. The company has bouquet of popular brands, including Sula, RASA, Dindori, Satori, Madera and Dia. Sula produces 56 different labels of wine four owned and two leased production facilities located in the Indian states of Maharashtra and Karnataka. Sula offers 56 labels from a portfolio of 13 distinct brands. Furthermore, its wines are available at various price points between Rs250 to Rs1,895 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.

Low Per Capita Income of Alcohol in India

India is one of the fastest growing alcoholic beverage markets in the world, growing from a small base of 1.3 litres per capita of consumption in 2005 to 2.7 litres in 2010. However, the per capita consumption of wine in India is less than 100 ml, with the contribution of wine to overall alcohol consumption being less than 1%., compared to the world average of close to 13%. In addition to the growth in per capita alcohol consumption, positive demographic factors, including the addition of more than ten million people each year to the population of eligible alcohol consumers, makes India one of the most attractive markets for alcoholic beverages.

High Entry Barrier

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. Unlike other alcoholic beverages, the wine industry has only one raw material production cycle in a year, which is usually from December to March. Wine storage and ageing happens throughout the year.

Largest Wine Distribution Network and Sales Presence

Sula has presence in 25 states and 6 union territories in India. It also entered the overseas markets in 2003, and currently offers wines in over 20 countries, including Spain, France, Japan, the United Kingdom and the United States. Distribution of alcoholic beverage products is highly controlled by the state government with uniform regulations for all alcoholic beverage products. The entry of new players in the distribution of alcoholic beverage industry in India is prohibitive due to high regulation across states and strong relations between the current players and retail outlets which may include exclusive arrangements.

Financials in Brief

During FY20-22, its revenue declined by ~7% while EBITDA clocked a CAGR of 52%. The company reported a revenue of Rs4.5bn (up 9% YoY) in FY22, while EBITDA grew by 86% YoY to Rs1.1bn in FY22. PAT stood at Rs521.4mn in FY22, up from Rs30.1mn in FY21 and Rs158.9mn in FY20. For 1HFY23, it reported revenue of Rs2.2bn, EBITDA margin of 27.9% and PAT of Rs305mn. The company's registered ROE has expanded to 13.2% in FY22 from 5.3% in FY20. It has reduced its Net Debt/Equity ratio to 0.5x in FY22 from 1.1x in FY20.

Our View

Based on FY22 earnings, the company is valued at 57.7x P/E, 28.4x EV/EBITDA and 7.1x EV/Sales. The company has strong presence across India, 20 countries including Spain, France, Japan, the UK and the US and it will also Continue to expand Wine Tourism. This business This is likely to provide further opportunities to the company in terms of expanding its business. **However, valuation at 58x FY22 leaves nothing meaningful on table with limited return.**

IPO Details	
Price Band (Rs)	340-357
Face Value (Rs)	2
Issue Open/Closing Date	12-Dec-14th Dec
Fresh Issues (mn)	-
OFS (mn)	26.9
Total Issue (mn)	26.9
Minimum Bid Qty. (Nos)	42
Issue Size (Rs bn)*	**9.60**
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs bn)*	**30.1**

At a higher band

Object of the Issue

- OFS.

Key Risk

- Licensing and excise regime with changing laws, rules and regulations and legal uncertainties.
- Adverse corporate and tax laws.
- Adverse climatic conditions may impact the quality of wine grapes.
- Supply disruptions in raw materials.
- Concentration in western and south-western parts of India.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	28.4	27.3
Others	71.6	72.7

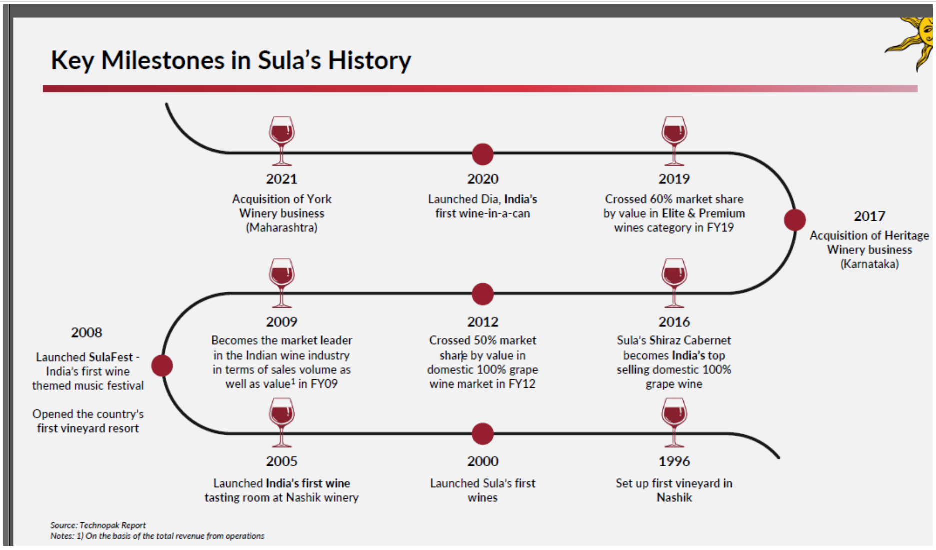
Key Financials

(Rs mn)	FY20	FY21	FY22
Revenue	5,216	4,180	4,539
EBITDA	490	609	1,133
EBITDA Margin (%)	9.4	14.6	25.0
PAT	(159)	30	521
PAT Margin (%)	(3.0)	0.7	11.5
EPS (Rs)	(1.9)	0.4	6.2
P/E (x)	(189.2)	998.6	57.7
EV/EBITDA (x)	68.1	53.4	28.4
EV/Sales (x)	6.4	7.8	7.1
Net Worth	3,023	3,047	3,953
RoE (%)	(5.3)	1.0	13.2
Gross Debt	3,682	3,013	2,289
Net Block	3,263	3,040	3,444
Net Asset Turnover (x)	1.6	1.4	1.3

Source: RHP

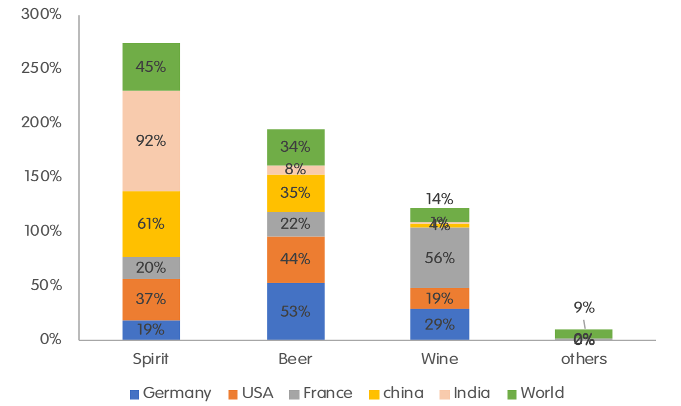
Research Analyst:
Arafat Saiyed
Contact : (022) 41681371 / 9819503007
Email : arafat.saiyed@relianceada.com

Exhibit 1: Key Milestones



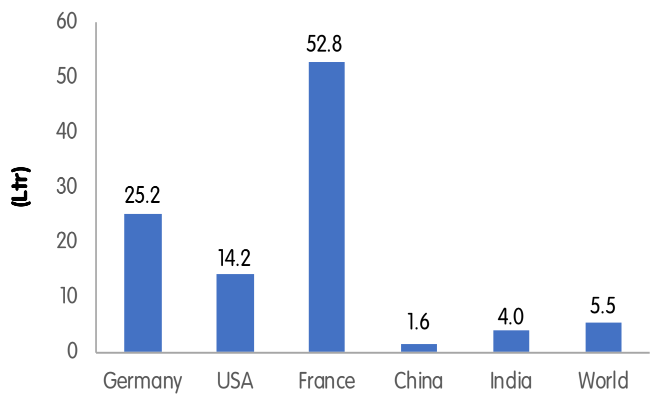
Source: RHP, Company

Exhibit 2: Contribution of Alco-bevs in 100% Alcohol CY21 (in Volume Terms)



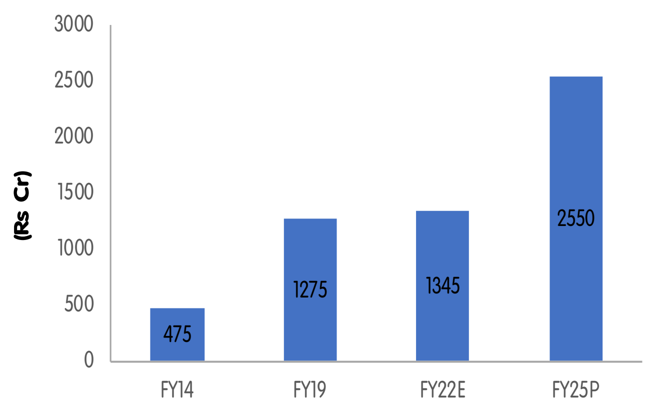
Source: RHP, Technopak Report

Exhibit 3: Per Capita Wine Consumption in CY21



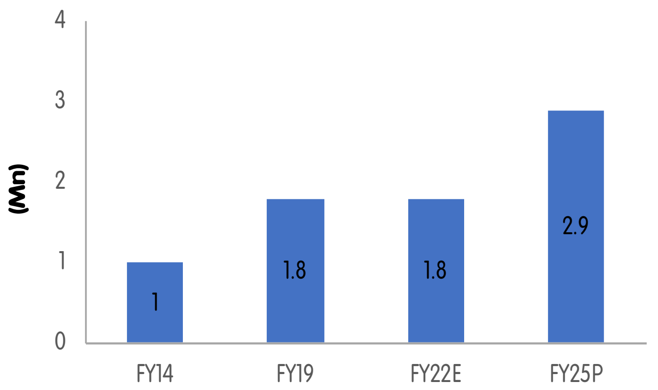
Source: RHP, Technopak Report

Exhibit 4: Indian 100% Grape Wine Market by Value



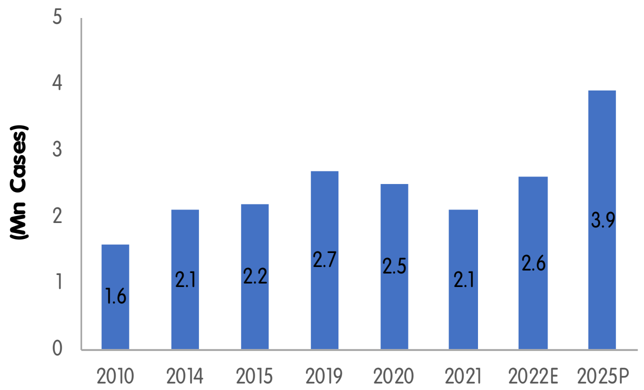
Source: RHP, Technopak Report

Exhibit 5: Indian 100% Grape Wine Market by Volume



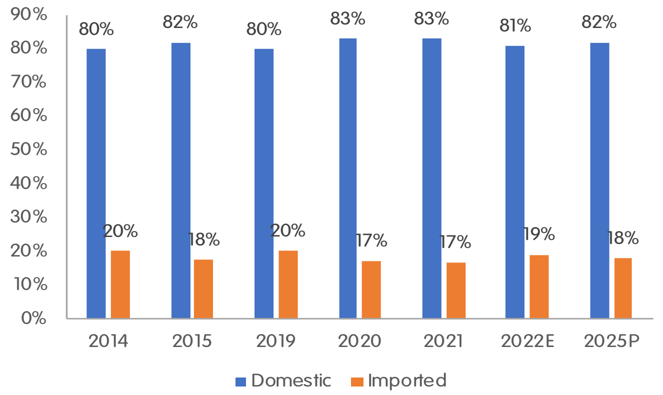
Source: RHP, Technopak Report

Exhibit 6: Indian Wine Market



Source: RHP, Technopak Report

Exhibit 7: Indian Wine Industry Domestic vs Imported for FY



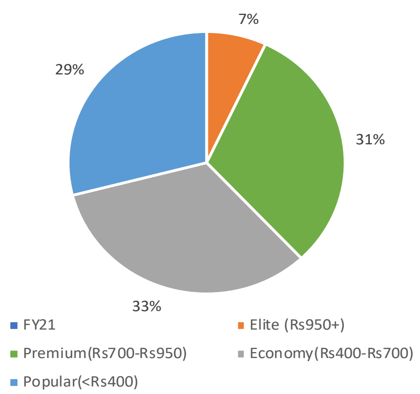
Source: RHP, Technopak Report

Exhibit 8: Alcohol Industry

Alcohol	Company
Spirits	Diageo India
	Pernod Ricard
	Radico Khaitan
	Allied Blenders
Beer	United Breweries
	Anheuser-Busch InBev NV
	Bira 91
	Carlsberg
Wine	Sula Vineyards
	Grover Zampa
	Fratelli

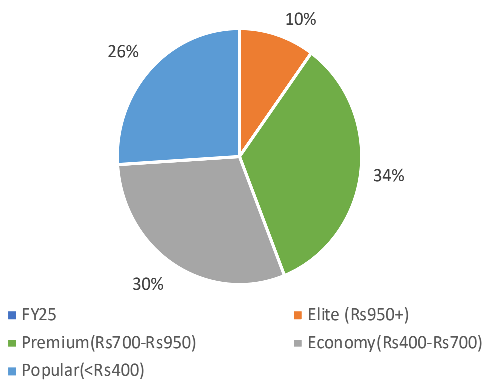
Source: RHP, Technopak Report

Exhibit 9: Category Wise Share of 100% Grape Wine Market (by Volume) 2021



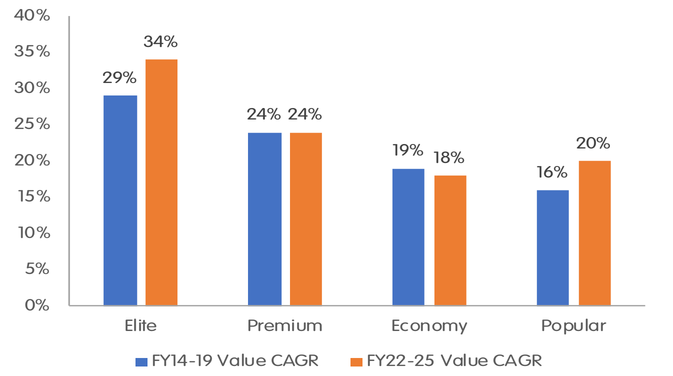
Source: RHP, Technopak Report

Exhibit 10: Category Wise Share of 100% Grape Wine Market (by Volume) 2025



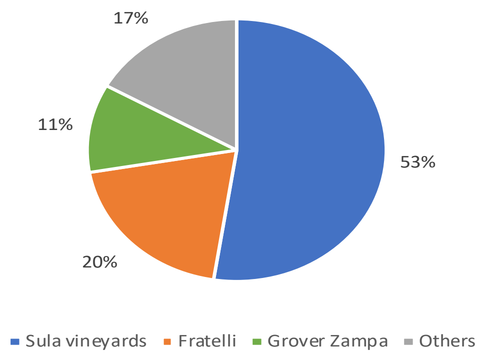
Source: RHP, Technopak Report

Exhibit 11: Category Wise Growth of Indian 100% Grape Wine Market by Value



Source: RHP, Technopak Report

Exhibit 12: Market Share of Wine (FY22)

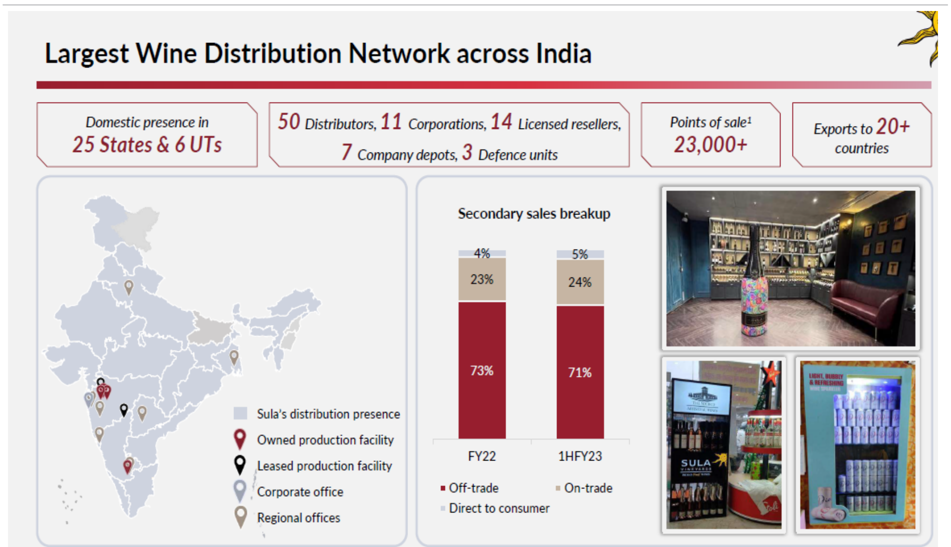


Source: RHP, Technopak Report

Exhibit 13: Sula has Leadership across all Categories in the Indian Wine Market

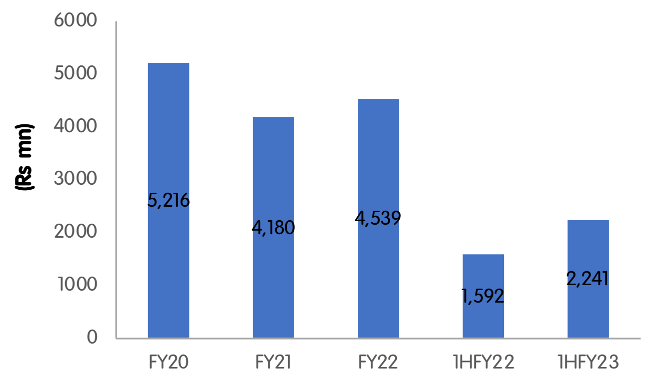
Source: RHP, Company

Exhibit 14: Largest Wine Distribution Network across India



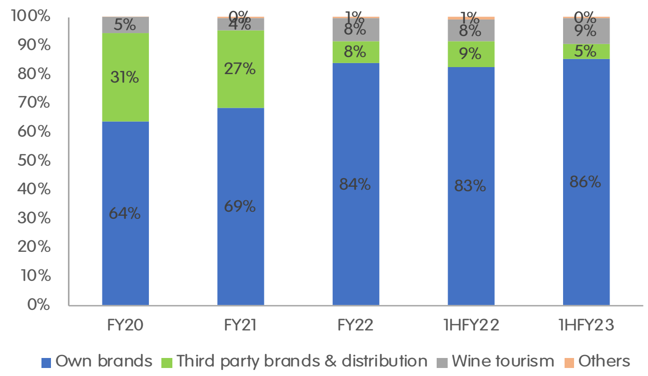
Source: RHP, Company

Exhibit 15: Revenue from Operations



Source: RHP

Exhibit 16: Revenue Split by Business Segments



Source: RHP

Mitul Dilipkumar Shah

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