



IPO Report

08th Dec' 22

Snapshot

Sula Vineyard is India's largest wine producer and seller as of March 31, 2022. Company have been a consistent market leader in the Indian wine industry in terms of sales volume and value since Fiscal 2009 crossing 50 per cent. market share by value in the domestic 100 per cent. grapes wine market in Fiscal 2012.

VALUATION

Company is bringing the issue at price band of Rs 340-357 per share at p/e multiple of 54x on FY22 basis. Company has high barriers of entry & is established market leader in the Indian wine industry with the leading brand "Sula". Company being largest wine producer in India with the widest and innovative product offering supported by an efficient production mechanism has largest wine distribution network and sales presence. Also, company has secured supply of raw material with long term contracts exclusive to Sula. Company being leader and pioneer of the wine tourism business in India with experienced board, qualified senior management team. Hence, looking after all above, we recommend "Subscribe" on issue.

| | |
|---------------------------|---------------------------------|
| Price Band (Rs./Share) | 340-357 |
| Opening date of the issue | 12th Dec 2022 |
| Closing Date of the issue | 14th Dec 2022 |
| No of shares pre issue | 84,198,748 Eq Shares |
| Issue Size | Rs 915-960 Cr |
| Offer For Sale | 26,900,530 Eq Shares |
| Face Value (Rs/ share) | Rs 2/share |
| Bid Lot | 42 |

BIDDING DETAILS

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|-------------------------|--|
| QIBs (Including Anchor) | 50% of the offer (Approx 13,450,266 Eq Shares) |
| Non-Institutional | 15% of the offer (Approx 4,035,079 Eq Shares) |
| Retail | 35 % of the offer (Approx 9,415,185 Eq Shares) |
| Lead managers | Kotak Mahindra, CLSA,, IIFL Securities, ICICI Securities |
| Registrar to the issue | KFin Technologies Ltd. |

WHAT WE LIKE

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

Company have built a strong network across key markets, which gives company a competitive advantage over other wine players . 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 . Company have consistently gained market share (on the basis of total revenue from operations) from 33 per cent. in Fiscal 2009 in 100 per cent. grapes wine category to 52 per cent. in value in Fiscal 2022.

Largest wine distribution network and sales presence

As of September 30, 2022, company have a presence in 25 states and six union territories in India. Company also entered the overseas markets in 2003, and currently offer wines in over 20 countries, including Spain, France, Japan, the United Kingdom and the United States. 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 31'22, company's products have a high visibility and availability across the country. Company's distribution platform included over 50 distributors, 11 corporations, 14 licensed resellers, 7 company depots, 3 defence units as of 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.

Leader and pioneer of the wine tourism business in India

Company have been a pioneer of wine tourism in India, which has led to a strong D2C presence. With combination of resorts, tasting rooms and restaurants, company have helped to create a unique wine culture in India. For example, company launched the first wine tasting room in India in Fiscal 2005 at its facility in Nashik, Maharashtra and in Fiscal 2017, established another tasting room at its "Domaine Sula" facility in Karnataka, thereby establishing the concept of wine tourism in India. As part of Wine Tourism Business, company own and/or operate "The Source at Sula" and "Beyond by Sula" vineyard resorts located at and adjacent to its facility in Nashik, Maharashtra, having a combined room capacity of 67 rooms as of September 30, 2022. Supplementing Wine Tourism Business, company have experienced a strong and consistent D2C demand for wines from visitors at its wine tourism facilities in Nashik, Maharashtra and Bengaluru, Karnataka with average sale of approx 225,000 bottles each year over last three Financial Years.



COMPANY BACKGROUND

Company's business can be broadly classified under two 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").

Company distribute 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, company produce 56 different labels of wine at four owned and two leased production facilities located in the Indian states of Maharashtra and Karnataka. Furthermore, company is among the top ten most followed vineyards in the world, with a large following on social media of approximately 118,000 followers on Instagram, approximately 123,000 likes on Facebook and approximately 14,000 followers on Twitter as on September 30, 2022 .

Company serviced close to 8,000 hotels, restaurants and caterers, which makes company the leader in terms of footprint among wine players in India, and experienced a significant rise in its Off-trade sales in the last 3 years with its Off-trade sales contributing 72.25 per cent. of company's secondary sales during Fiscal 2022, compared to 61.33 per cent. in Fiscal 2020. During the six months period ended September 30, 2022 and September 30, 2021, the contribution from company's Off-trade sales was 70.75 per cent. and 72.95 per cent. of company's secondary sales, respectively. Company have tie-ups with distributors in Maharashtra, Haryana, Delhi, Goa and Punjab. To that end, company have managed to build the largest distribution network among wine companies in India, with close to 13,000 retail touchpoints across the country in 2021 . Company also have a strong direct to consumer ("D2C") selling channel primarily through its Wine Tourism Business facilities in Nashik (Maharashtra) and Bengaluru (Karnataka), with the highest number of D2C sales in the Indian wine industry in Fiscal 2021 . Company's D2C sales were ₹157.53 million, ₹72.81 million and ₹242.01 million during the six months period ended September 30, 2022 and September 30, 2021, and the Financial Year ended March 31, 2022, respectively. Company's products are available over various e-commerce platforms, which is helping further increase its D2C footprint.

Company is the pioneers of wine tourism in India with many firsts to its credit, such as the first wine tasting room in India, the first vineyard resort, the first wine music festival and the first winery tours at its facility in Nashik. As part of Wine Tourism Business, company own and operate two vineyard resorts located at and adjacent to its winery in Nashik, Maharashtra, under "The Source at Sula" and "Beyond by Sula" brand names, having room capacities of 57 and 10 rooms as of September 30, 2022, respectively. Company launched the first wine tasting room in India in Fiscal 2005 at its winery in Nashik, Maharashtra followed by a wine tasting room at its "Domaine Sula" facility in Karnataka in Fiscal 2017.



INVESTMENT RATIONALE

| | |
|--|---|
| <i>High barriers of entry</i> | 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. |
| <i>Largest wine producer in India with the widest and innovative product offering supported by an efficient production mechanism</i> | Company is the clear market leader in the Indian domestic wine industry, with market share by value being 52 per cent. in Fiscal 2022. Company have 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 Fiscal 2009 crossing 50 per cent. market share by value in the domestic 100 per cent. grapes wine market in Fiscal 2012. The 'Premium' and 'Elite' wine categories contributed approximately 61 per cent. by value and 40 per cent. by volume of the Indian domestic 100 per cent. grape wine market in Fiscal 2020 and are projected to grow at a CAGR of 19.7 per cent. by volume in the period between Fiscal 2022 to Fiscal 2025 as compared to overall category growth of approximately 15.8 per cent. during the same period. The Indian wine market crossed 2.5 million cases in Fiscal 2020 and is expected to grow at a CAGR of 14.3 per cent. in terms of volume from Fiscal 2022 to Fiscal 2025 with domestic players dominating volumes. The share of wine as a form of alcohol consumption in India in the calendar year 2021 was less than 1 per cent., whereas globally, the contribution of wines to alcohol consumption was close to 13.5 per cent. (in terms of 100 per cent. pure alcohol in calendar year 2021) during the same period, suggesting significant room for growth. |
| <i>Secured supply of raw material with long-term contracts exclusive to Sula</i> | The top wine producing states, Maharashtra and Karnataka, are also the top consuming states, contributing close to 57 per cent. of the overall wine market in India. As of June 30, 2022, company had access to approximately 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 its total acreage, company have entered into long-term supply arrangements (of up to 12 years) with contract farmers for approximately 2,290 acres as of September 30, 2022. Such long-term supply arrangements cover more than 90 per cent. of company's annual supply of wine grapes, and company intend to continue expand its wine grape supply via long term contracts with third-party farmers. |
| <i>Early adoption and focus on sustainability</i> | Sustainability is a key focus area for company and is infused in its business decisions, including the packaging of its products. Clean renewable energy is one main focus of company's sustainability efforts, and company is a leader in installing clean renewable energy at its wineries, with over 2MW of installed solar PV capacity providing company more than 60 per cent. of its annual energy needs in Fiscal 2022. Company adopted clean energy through setting up solar panels at its Nashik facility in Fiscal 2014. Company have formulated and undertaken a "Green Sula" initiative to make its vineyards eco-friendlier as well as more cost-effective. Company generated more than 3 million kWh from solar energy at its owned and leased facilities in Maharashtra and Karnataka in Fiscal 2022. Company have rainwater harvesting reservoirs at all its facilities with a combined storage capacity of over 36.83 million liters. Company have reduced the water usage per case produced by over 11 per cent. in the last three fiscals. Company actively recycle and reuse waste-water and have improved efficiency by using drip irrigation at its wineries. |



OBJECTS OF OFFER

The Offer comprises an Offer for Sale by the Selling Shareholders.

Offer for Sale

The objects of the Offer are to (i) to carry out the Offer for Sale of up to 26,900,530 Equity Shares by the Selling Shareholders; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges

RISKS

Currently, the import of alcoholic beverages in India attracts an import duty at the rate of 150 per cent. of the value of the wine being imported. Given the high cost of import, the wine market in India has limited international entrants. However, if the Government reduces the import duty on wine in India, company may face increased competition from international labels by its competitors or other distributors, which may have higher appeal to consumers in terms of variety and pricing. For instance, on April 2, 2022 India entered into an interim Australia-India Economic Cooperation and Trade Agreement with Australia which when in force, will offer a phased reduction of import duty over a period of 10 years on certain Australian wines imported to India.

Source:RHP

INDUSTRY OVERVIEW

Wine Market in India

Wine Market Size in India

Indian Wine Market is expected to grow at a CAGR of 14 per cent. in terms of volume from FY 2022 to FY 2025 with domestic players dominating volumes. The Indian wine market crossed 2.5 million cases in FY 2020. However, the sluggish economy followed by the COVID-19 pandemic pulled the market down. The Indian wine market is projected to grow to 3.9 million cases by FY 2025. The Indian wine market today is dominated by domestic wines with the share of imported wines projected to come down from 19.2 per cent. in FY 2020 to 18 per cent. in FY 2025 in volume terms.

The Indian Wine Market is projected to reach INR 3,785 Crore by FY 2025 with a CAGR of 20 per cent. from FY 2022 to FY 2025
The Indian wine market by value reached ~INR 1,900 Crore in FY 2020 and then decreased to INR 1,625 Crore in FY 2021. This decline is attributed to the lockdowns and restrictions imposed due to COVID-19 on liquor shops and food services industry. The domestic 100 per cent. grape wine market specially the elite and premium segment has shown higher resilience as compared to the overall wine market in India. The elite and premium segment recorded lower de-growth at 13.5 per cent. by value. However, it is estimated to go above pre-pandemic levels by the end of FY 2022 and increase to INR 3,785 Crore in FY 2025 with a CAGR of 20 per cent. from FY 2022, surpassing the growth rate of the overall alco-beverage industry over the same period (CAGR of 12 per cent. from FY 2022 to FY 2025). The wine industry is leveraging positive factors, including premiumization of the alcobeverage industry, wider acceptance of wine as a social drink and the growing perception of wine as a healthy alternative to spirits.

Indian Wine market is leveraging premium segment to drive growth as 100 per cent. grape wines gain prominence

The domestic wine industry has suffered with the prominence of fortified mixed wines, which contributed close to 36 per cent. to the market by volume in FY 2015. The low quality of fortified mixed wines made with the addition of molasses and sugar with a price below Rs. 200 for a 750 ml bottle contributes to the lower end of the popular segment in domestic wines. These beverages, passed as wines with high alcohol content of more than 20 per cent. in some cases, serve the lower end of the market. However, the share of low-quality fortified wines has been coming down in recent years, from 38 per cent. in FY 2014 to 12 per cent. in FY 2022. Segmentation of the wine market categorizes wine into 100 per cent. grape-based wines and fortified mixed wines. 100 per cent. grape wines fared much better than fortified mixed wines in FY 2021, with lower degrowth of 15 per cent. by value against 30 per cent. degrowth by value in mixed fortified wines.

The Indian domestic 100 per cent. grape wine market is set to grow by CAGR of 22 per cent. by value from FY 2022 to FY 2025

The Indian domestic 100 per cent. grape wine market is estimated at INR 1,345 Crore in FY 2022, dominated by the top three players contributing close to 80 per cent. of the market by value. This is unique to India, as even though it is a relatively young market, it is a consolidated market with Sula Vineyards being a clear market leader commanding a market share of close to 52 per cent. in FY 2022 by value.


Consolidated Financials

(Rs in Mn)

| | FY20 | FY21 | FY22 | H1FY23 |
|-----------------------|----------|----------|----------|----------|
| Total Revenue (A) | 5216.34 | 4179.59 | 4539.16 | 2240.68 |
| Total Expenditure (B) | 4727.01 | 3570.00 | 3406.29 | 1614.53 |
| EBIDTA | 489.33 | 609.59 | 1132.87 | 626.15 |
| EBIDTA Margin | 9.38 | 14.58 | 24.96 | 27.94 |
| Other Income | 15.60 | 35.53 | 27.84 | 16.91 |
| Depreciation | 349.97 | 256.99 | 236.11 | 125.82 |
| EBIT | 154.96 | 388.13 | 924.60 | 517.24 |
| Interest | 328.93 | 333.86 | 229.23 | 104.69 |
| PBT | -173.97 | 54.27 | 695.37 | 412.55 |
| Extraordinary item | 0.00 | -22.41 | 0.00 | 0.00 |
| PBT | -173.97 | 31.86 | 695.37 | 412.55 |
| Tax | -14.57 | 1.72 | 173.98 | 107.49 |
| PAT | -159.40 | 30.14 | 521.39 | 305.06 |
| NPM% | -3.06 | 0.72 | 11.49 | 13.61 |
| ROE % | -5.27 | 0.99 | 13.19 | 6.79 |
| EPS | -10.60 | 0.40 | 6.63 | 3.74 |
| Eq Cap | 150.44 | 150.80 | 157.20 | 163.20 |
| Net Worth | 3,023.47 | 3,047.39 | 3,952.59 | 4,491.85 |

(Source: RHP)

Peer Comparison

| Company Name | Total Income (Rs in million) | P/E | EPS | RONW % | NAV as at March'2022 |
|----------------------|---------------------------------|--------|-------|--------|-------------------------|
| Sula Vineyards | 4539.16 | --- | 6.53 | 11.45 | 55.34 |
| Peer Group | | | | | |
| United Spirits | 310618.00 | 76.14 | 11.68 | 16.63 | 67.09 |
| Radico Khaitan Ltd | 124705.02 | 53.36 | 19.70 | 13.18 | 149.46 |
| United Breweries Ltd | 131239.20 | 119.83 | 13.82 | 9.29 | 148.99 |

(Source: RHP)



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