

Sula Vineyards Limited

Nifty: 22055

CMP: INR 555

Target Price: INR 565

WHERE ADVISORY MEETS EXCELLENCE

Breweries & Distilleries

Established in 1999 by Rajeev Samant, Sula Vineyards has emerged as a dominant force, capturing over 50% of the Indian wine market. In its recent announcement of Q3FY24 results, the company showcased a 4% year-on-year revenue growth. Notably, its own brands and wine tourism segments experienced revenue upticks of approximately 4% and 16%, respectively. Capitalizing on the trend of premiumization, Sula's Elite & Premium wines, which contribute roughly 77% of its revenue, demonstrated a robust 7.3% year-on-year growth. The wine tourism division also flourished, achieving a remarkable 16% growth, with wine tourism revenue reaching Rs. 14.7 crore, buoyed by record-breaking visitor numbers, revenues, and tastings during the festive Christmas holiday weekend. Overall, the company's EBITDA surged by 12.8% year-on-year to Rs. 73.3 crore, boasting EBITDA margins of 33.7%. Additionally, the inclusion of the VAT refund of approximately Rs. 1.5 billion under the Wine Industrial Promotion Scheme (WIPS) bolstered trade receivables for the quarter. While acknowledging the company's robust fundamentals and promising future prospects, we exercise prudence regarding valuation and hence recommend a "HOLD" rating for Sula Vineyards, with a target price set at Rs. 565/-.

Sustainable performance:

The company exhibited significant growth, with around a 4% increase in overall revenue value and approximately 4.6% growth in overall volume. Notably, the Elite and Premium segment saw robust performance, experiencing a value growth of about 7.3% and a volume growth of approximately 3.5% year-on-year (YoY). The contribution of this segment to the company's own brands' value surged from around 72% to about 77%. Additionally, the wine tourism segment achieved remarkable results, recording revenue of Rs. 14.7 crore, driven by setting new records for visitor numbers, revenues, and tastings during the extended Christmas holiday weekend. Looking forward, management foresees sustained growth momentum in the second half of FY24. Moreover, the company increased its reliance on renewable energy from around 50% in the previous quarter to approximately 60% during the quarter, with plans to elevate it to around 70% by FY25, advancing from the earlier targeted year of 2026.

New Launches:

The Company introduced canned versions of its top-selling wines: Sula Chenin Blanc (white), Rose Zinn (rosé), and Red Zin (Zinfandel).

Gain in Market Share:

During the quarter, Maharashtra, Sula's primary market, witnessed

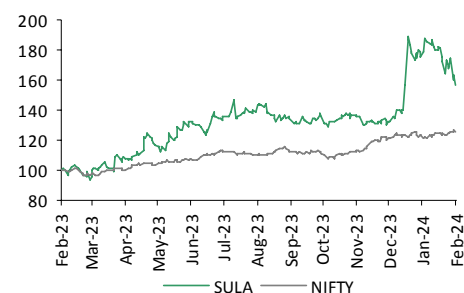
fierce competition among wine producers, marked by volume discount battles. While competitors offered volume discounts such as 40 additional cases with the purchase of 100 cases, Sula opted for cashback incentives. This strategic shift aimed to counter intensified competition, especially in the Elite and Premium segments. Consequently, Sula succeeded in expanding its market share compared to its rivals. A significant milestone was reached during the quarter as Sula attained a record-high share of approximately 77% revenue from its Elite and Premium wines.

Outlook:

Sula Vineyards shows promising future growth potential, contingent on surpassing competitors in the alcoholic beverage industry and strengthening its market presence in both domestic and imported wine sectors. The revival of VAT refunds under WIPS has influenced price action, with approximately Rs. 1.5 billion included in trade receivables quarterly. However, a phased reduction appears more plausible, offering better manageability for the company. Furthermore, Sula's leadership in wine tourism bolsters its competitive position. Despite strong fundamentals and future prospects, caution regarding valuation leads to a recommendation of a "HOLD" rating for Sula Vineyards, with a target price set at Rs. 565/-.

Shareholding (%)	Dec-23
Promoters	26.27
Mutual Funds	17.94
Other Domestic Institutions	1.62
FII	19.69
Retail and Others	34.48

Relative Price Performance



Key Data	
NSE Symbol	SULA
Bloomberg Code	SULA:IN
Reuters Code	SULA.NS
Shares Outstanding (In Cr)	8.44
Face Value	2
Mcap (In cr)	4,683
52 week H/L	699 / 326.35
Beta	0.50

Board of Directors / Management Team	
Name	Designation
Mr. Rajeev Samant	Executive Director
Mr. Chetan Rameshchandra Desai	Non-Executive-Independent Director-Chairperson
Mr. Karan Vasani	Chief Operating Officer
Mr. Abhishek Kapoor	Chief Financial Officer
Ruchi Sathe	Company Secretary & Compliance Officer

(Rs in Million)	2022	2023	2024E	2025E
Net Revenue	4,244	5,162	5,825	6,590
PAT	521	840	935	1,081
PAT Margin (%)	12.28%	16.27%	16.05%	16.40%
EPS	6.80	10.00	11.08	12.81

Breweries & Distilleries

Quarterly Results:

Amt in CR	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)	9MFY24	9MFY23	YoY (%)
Revenue	217.54	209.13	4%	142.83	52%	476.96	433.47	10%
Cost of material consumed	18.51	18.08	2%	15.56	19%	44.97	38.68	16%
Purchase of stock-in-trade	6.35	5.75	10%	3.54	79%	13.98	17.37	-20%
Changes in inventories of finished goods, work-in-progress and stock-in-trade (net of excise duty)	32.36	36.84	-12%	10.13	219%	50.40	53.30	-5%
Excise duty on sales	14.50	18.49	-22%	9.14	59%	31.74	30.35	5%
Employee benefits expense	22.52	20.06	12%	21.58	4%	65.38	57.16	14%
Selling & distribution expenses	26.51	18.14	46%	14.24	86%	53.51	42.73	25%
Other expenses	24.94	27.74	-10%	24.44	2%	70.58	67.23	5%
EBITDA	71.85	64.03	12%	44.20	63%	146.40	126.65	16%
EBITDA Margin (%)	33%	31%	8%	31%	7%	31%	29%	5%
Depreciation and amortisation expense	8.11	6.50	25%	7.61	7%	23.28	19.08	22%
EBIT	63.74	57.53	11%	36.59	74%	123.12	107.57	14%
Finance Costs	8.09	5.78	40%	6.52	24%	19.93	16.25	23%
Other Income	1.40	0.89	57%	0.89	57%	3.87	2.58	50%
Profit before tax	57.05	52.64	8%	30.96	84%	107.06	93.90	14%
Taxes	14.07	13.36	5%	7.87	79%	27.30	24.11	13%
Profit After Tax (PAT)	42.98	39.28	9%	23.09	86%	79.76	69.79	14%
PAT Margins (%)	20%	19%	5%	16%	22%	17%	16%	4%
EPS (INR)	5.09	4.71	8%	2.74	86%	9.45	8.49	11%

Financials

Income Statement

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Net revenues	4,244	5,162	5,825	6,590
RM costs	-1,171	-1,331	-1,463	-1,653
Gross profit	3,073	3,831	4,362	4,937
Employee costs	-653	-775	-891	-1,024
A&P spends	-445	-553	-670	-758
Other expenses	-841	-929	-1,054	-1,194
EBITDA	1,133	1,574	1,747	1,961
Depreciation	-236	-259	-336	-366
EBIT	897	1,315	1,411	1,595
Other income	28	35	32	48
Interest expense	-229	-211	-179	-182
PBT	695	1,139	1,263	1,461
Tax	-174	-299	-328	-380
Extraordinary items	-	-	-	-
Reported PAT	521	840	935	1,081

Balance Sheet

Y/E (INR mn)	FY22	FY23	FY24E	FY25E
Total equity	3,952	5,320	6,022	6,832
Total borrowings	2,290	1,918	1,868	1,768
Other non-current liabilities	251	240	234	374
Total Non-current liabilities	2,541	2,157	2,102	2,142
Creditors	674	820	878	1,011
Other current liabilities	371	465	460	521
Total Current liabilities	1,045	1,285	1,338	1,532
Total equity and liabilities	7,538	8,763	9,461	10,506
Net fixed assets	3,444	3,970	4,305	4,523
CWIP	10	19	19	19
Right of use assets	93	93	100	105
Cash and cash equivalents	102	164	120	501
Inventories	1,623	1,789	1,915	2,121
Receivables	1,094	1,145	1,277	1,426
Other current assets	793	973	1,055	1,190
Total current assets	3,612	4,071	4,366	5,238
Total assets	7,538	8,763	9,461	10,506

Cash Flow

Y/E	FY22	FY23	FY24E	FY25E
Profit before tax	695	1,140	1,263	1,461
Depreciation	236	259	336	366
Finance costs	214	190	179	182
Other misc	38	-3	-32	-48
Operating cash flow before w-cap changes	1,184	1,586	1,747	1,961
Change in net working capital	-143	-441	-335	-359
(Inc)/dec in debtors	164	-76	-131	-150
(Inc)/dec in inventories	-146	-182	-126	-206
Inc/(dec) in trade payables	-207	-347	-134	-136
Others	47	164	57	133
Direct taxes paid	-167	-278	-327	-373
CF from operating activities	874	868	1,085	1,229
Cash flow from investing activities				
Capital expenditure	-550	-691	-625	-525
Interest received	0	-65	-	-
Change in Investments / Misc	91	2	-	-
CF from investing activities	-459	-754	-625	-525
Cash flow from financing activities				
Issue of equity shares	561	959	0	0
Proceeds from borrowings	307	574	-	-
Dividend paid (including DDT)	-613	-434	-50	-100
Interest paid	-202	-175	-179	-182
Payment of lease liabilities	-194	-454	-234	-270
Others	-54	-52	-73	181
CF from financing activities	-195	418	-536	-371
Net change in cash and cash eq.	220	532	-75	333
Free cash flow	415	194	460	704

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