INVasset Knowledge Bank



Sula Vineyards Limited
Initial Public Offering (IPO)

12th DECEMBER, 2022

INVASSET

India's Best Performing and Most Customer Centric PMS

Sula Vineyards is the country's largest wine producer and seller in the Indian wine industry in terms of sales volume and value since FY09. The company is coming out with its initial public offering (IPO) of equity shares with a face value of Rs 2 per equity share. The price band of the issue has been fixed at Rs 340 to Rs 357 per equity share. The issue size is Rs 960.35 crore at a higher price band.

The IPO opening date is December 12, 2022, and it will be closing on December 14, 2022. The issue is likely to be listed on the exchange on December 22, 2022. The IPO market lot size is 42 shares and in multiple thereof. A retail-individual investor can apply up to a maximum of 13 lots (546 shares or Rs 1,94,922) at the upper price band.



About The Company

As of March 31, 2022, Sula Vineyards Limited, a 2003 incorporation, is the country's biggest wine producer and distributor. The business also sells wine under a number of well-known brands, including RASA, Dindori, The Source, Satori, Madera, and Dia; its flagship brand, Sula, is considered to be the "category originator" of wine in India.

The company's activities can be broken down into two groups, first is wine production, importation of wines and spirits, and distribution of wines and spirits (the "Wine Business"); and second is the sale of services derived from ownership and operation of wine tourism venues, such as vineyard resorts and tasting rooms (the "Wine Tourism Business"). Wine Business accounts for majority of the revenue and contribute around 90 per cent of the total revenue while Wine Tourism contributes the rest.

Around 90% of the total revenue is contributed by the wine business, with the remaining 10% coming from wine tourism.

In the Indian states of Maharashtra and Karnataka, the firm now produces 56 different wine labels at four owned and two leased production sites. With approximately 13,000 retail touchpoints nationwide by 2021, the company would have established the largest distribution network among wine companies in India. A substantial direct-to-consumer ("D2C") sales channel is also available for the company, primarily through the facilities for the Wine Tourism Business in Nashik and Bengaluru. Sula Vineyards Limited has contracts with grape growers for up to 12 years that covered 2,290 acres of land as of September 30, 2022. This provides visibility into the company's supply of grapes, which are employed as prime raw materials. The business's distribution network included more than 50 distributors, 11 corporations, 14 authorized resellers, 7 company depots, and 3 defense units as of September 30, 2022. The corporation had approximately 23,000 points of sale as of March 31, 2022. (including over 13,500 retail touchpoints and over 9,000 hotels, restaurants, and caterers).

Industry Overview

India is one of the fastest-growing alcoholic beverage markets in the world, growing from a small base of 1.3 liters per capita of recorded consumption in 2005 to 2.7 liters in 2010.However, India's per capita consumption of 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 close to 13%.

Despite this, the Indian wine industry is growing at a much quicker pace at 18.3% by value between FY 2014 to FY 2019. Further, it is projected to grow to 3.4 million cases, from the current 2 million cases, by FY 2025 with a CAGR of more than 14% in volume.

Indian alco-beverage market is the third largest market in the world after China and the USA by volume in terms of the actual alcohol content of alco-beverages in CY 2020. It is further projected to grow at 11% per annum in value terms for the period between 2021 to 2025.

About The Issue	
IPO Opening Date	12-Dec-22
IPO Closing IPO	14-Dec-22
Issue Type	Book Built Issue IPO
Face Value	Rs 2 Per Equity Share
IPO Price	Rs 340 to Rs 357 per share
Minimum Order Qty	42 Shares
Listing At	BSE, NSE
Issue Size	2,69,00,530 shares of FV 2 (Aggregating up Rs 960.35 Cr)
QIB Shares Offered	Not more than 50% of the offer
NII Shares Offered	Not less than 15% of the offer
Retail Shares Offered	Not less than 35% of the offer

Peer Comparison

Major Players in Indian Alco Beverage Market		
Alcohol	**Company**	**Brands**
Spirits	Diageo India	McDowell No. 1, Royal Challenge, Signature, VAT 69, Black Dog, Johnnie Walker
	Pernod Ricard	Imperial Blue, Royal Stag, Blenders Pride, 100 Pipers, Ballentine's, Chivas, Glenlivet
	Radico Khaitan	8 PM, Magic Moments
	Allied Blenders	Officer's Choice Blue, Officer's Choice Black, Sterling Reserve B7, Sterling Reserve B10
Beers	United Breweries	Sterling Reserve B10 Beer United Breweries Kingfisher, Kalyani Black label, Sandpiper, Heineken
	Anheuser-Busch InBev NV	Haywards, Fosters, Budweiser, Corona.
	Bira 91	Bira Light, Bira Strong, Bira Blonde, Bira White
	Carlsberg	Tuborg, Carlsberg
Wine	**Sula**	**Sula Shiraz cabernet, Sula chenin Blanc, Sula Zinfandel Rose, Madera Red, Dindori Reserve Shiraz, Satori, Samara Red, Rasa Cabernet Sauvignon, The Source Grenache Rose, Dindori Reserve Chardonnay, Sula Sparkling Shiraz**
	Grover Zampa	LA Reserve, Vijay Amritraj White, Chene Grand Reserve
	Frateill	Fratelli Shiraz, Merlot, Sete

Category-wise Presence of Key Wine Players in domestic 100% grapes wine market		
Key Players	**Own labe;s**	**No Of Labels**
Sula Vineyard	Rasa, The Source, Dindori Reserve, Madera, Dia, Sula Classics, Satori	56
Fratelli Wines	J'Noon, JCB, Sette, MS, Fratelli	26
Grover Zampa Pvt Ltd	Insignia, Vendanges Tardvies, Chene, Soiree, Auriga, Vijay Amritraj	35

Category Wise Presence Of Key Wine Players In Domestic 100% Grapes Wine Market			
Wine Segments	**Country Of Labels**		
	Sula	**Grover Zampa**	**Fratelli**
Red	22	14	12
White	19	15	9
Sparkling	10	4	3
Rose	5	2	2

Vineyards		
Vineyard	Area Under Cultivation (In Acres)	Regions
Sula	2,521	Nashik, Maharashtra
Fratelli Wines	240	Sholapur, Maharashtra
Grover Wineyards	>410	Nasik, Maharashtra & Nandi Hills, Karnataka





Top Vine Players Installed Capacity FY 21 (Volume in '000s Litres)	
Company	Installed Capacity
Sula	13,983
Fratelli Wines	1,400
Grover Wineyards	4,700

The firm competes with three other businesses that are listed on the stock market. These competitors include well-known brands such as United Spirits, Radico Khaitan, and United Breweries. The analysis of Sula Vineyards in contrast to its counterparts is provided below. It is essential to keep in mind that Sula is only focused on the production of wine, whilst other companies in the alcoholic beverage business provide a broader selection of products.

Comparison With Listed Industry Peers (As On 31st March, 2022)							
Company (Listed)	FV	Revenue (In Crs)	P/E	P/B	EPS	Return On Networth	NAV Per Share
Sula Vineyard	**Rs 2**	**453.9**	**51.33**	**6.45**	**6.79**	**11.45%**	**50.29**
United Spirits Limited	Rs 2	9,712	61	13.94	11.68	19.80%	67.09
Radico Khaitan Limited	Rs 2	5,838	84.8	7.14	19.70	9.72%	149.46
United Breweries Limited	Rs 1	2,859	61.7	11.72	13.82	13.4%	148.99

- Sula Vineyards is the player with the lowest revenue (FY22), whereas United Spirits is the player with the highest revenue; United Spirits' revenue is 68 times that of SVL's revenue.
- Sula Vineyards has the lowest Earnings Per Share (EPS) of any company, coming in at 6.53. Radico Khaitan has the highest earnings per share (EPS), coming in at 19.70.
- Sula Vineyards is a business that operates in a sector where the PE is typically higher than average. At the top band, Sula is valued at a PE of 51.33 (FY22), which is lower than the peers' average of around 69. The PE for the other three players combined comes out to approximately 69 on average.
- The Return on Net Worth for United Spirits is the highest, followed by Radico and Sula. On this list, United Breweries has the lowest Return On Networth

Business Verticals

The company's business has can be divided into two categories:
- **Wine Business:** It includes the production of wine, the import of wines and spirits, and the distribution of wines and spirits.
- **Wine Tourism Business:** The sale of services from ownership and operation of wine tourism venues, including vineyard resorts and tasting rooms.

Wine Brand : Sula Classics



- **Sula Brut** - matured for 2–4 months. It contains an ABV of 12%.

- **Sula Brut Tropicale** - Sula's first Blanc de Noirs is a blend of 60% Chenin Blanc and 40% includes Shiraz and Riesling. It is bottle-aged for 18 months and contains an ABV of 12%.

- **Sula Sparkling Shiraz** - Sula Sparkling Shiraz is India's first and only sparkling shiraz wine. Matured for 4–5 months in oak barrels, this wine contains an ABV of 13.5%.

- **Sula Zinfandel Rosé** - India's first ever Zinfandel, this wine contains an ABV of 11.5%.

- **Sula Riesling** - This fruity white wine is India's first Riesling and contains an ABV of 11%.

- **Sula Sauvignon Blanc** - India's first ever Sauvignon Blanc, this unbaked white wine contains an ABV of 12.5%.

- **Sula Chenin Blanc** - This semi-dry white wine is India's first ever Chenin Blanc as well as the country's best-selling white wine. It contains an ABV of 12%.

- **Sula Chenin Blanc Reserve** - The limited edition Chenin Blanc Reserve is hand-picked from Sula's Dindori estate vineyards. Partially aged in French oak barrels, it contains an ABV of 12.5%.

- **Sula Cabernet Shiraz** - This medium-bodied red wine is India's best-selling red wine. It contains an ABV of 13.5%.[7]

- **Sula Zinfandel** - This medium-bodied red wine contains an ABV of 13.5%.

- **Sula Late Harvest Chenin Blanc** - This dessert wine by Sula is India's first ever late harvest Chenin Blanc and contains an ABV of 13.5%.

- **Sula Seco Rosé** - This medium-dry rosé sparkling wine contains an ABV of 10.5%.

- **Sula Seco** - Sula Seco Rose is a medium dry rosé sparkling wine with an ABV of 10.5%.

- **Sula Satori Tempranillo** - "Satori" is a Zen term meaning "sudden enlightenment". This red wine variant is a medium-bodied blend of Tempranillo, Malbec and Merlot. It contains an ABV of 13%.

- **Sula Brut Crémant De Nashik** - a sparkling wine with an ABV of 12%.





Wine Brand : Rasa

- **Rasa Cabernet Sauvignon** - This red wine is aged in French oak barrels for over a year and then matured in the bottle before release. It contains an ABV of 14%.

- **Rasa Zinfandel** - This rough red wine matures for around 3–4 months in American Oak barrels and contains an ABV of 14%.

- **Rasa Syrah:** This red wine is rich, opulent and slightly peppery. This red wine is aged in French oak barrels for over a year



Wine Brand : The Source



- **The Source Grenache Rosé -** This rosé wine contains an ABV of 12.5%.

- **The Source Sauvignon Blanc Reserve -** This medium-bodied dry white wine is partly aged in French Oak barrels and contains an ABV of 12.5%. Partially barrel-fermented, partially aged in French oak barrels.

- **The Source Cabernet Sauvignon -** A well-balanced wine with notes of black fruits. It has an ABV of 13.5%. Partially aged in premium French oak barrel, to bring a charming complexity, while staying fruit-forward and easy.

Wine Brand : Dindori



- **Dindori Reserve Viognier -** This dry white wine has a rich fruity profile and an ABV of 12.5%.

- **Dindori Reserve Chardonnay -** This medium-bodied dry white wine is partly aged in French Oak barrels and contains an ABV of 13%.

- **Dindori Reserve Shiraz -** This full-bodied, dry red wine is barrel-aged in American oak for 10–12 months and contains an ABV of 14%. It is the first ever Indian wine to feature in the 'Top 100 Wines' list by Wine Enthusiast.

Unique Selling Propositions

Existing market leader: The business has developed a strong network over the past 20 years across important markets, giving them an edge over other wine players. White, red, and sparkling wines all fall under the 'SULA' brand's market leadership umbrella.

High Entry Barriers: With high entry and trade barriers prevalent in the alcoholic beverage market, the wine market in India is expected to remain concentrated. The wine value chain process, for example, each state has a different alcoholic policy, and winemaking requires expertise, involvement of capital and time for development of vine yards – all of these factors create high entry barriers.

Secure and safe raw material supply: They have access to approximately 2,521 acres of vineyards, which is significantly more than its nearest competitor's 460 acres. They have long-term supply agreements (up to 12 years) in place with contract farmers for approximately 2,290 acres.

Sula is India's largest wine producer, with innovative products. Sula is the market leader in the Indian domestic wine industry, with a market share of 52% in FY22. Since fiscal year 2009, they have led in both volume and value of sales. 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.

Focus on premiumization of product portfolio: Sula currently produces and markets 34 labels in the 'Elite' and 'Premium' categories, offering the most in the Indian wine market. SVL intends to continue leveraging its distribution capabilities in order to launch new products in these categories in order to increase revenue and market share in the Indian wine market.

Continue to prioritise brand: SVL will prioritise its own brands over third-party brands that it imports and distributes. In FY20, they made a clear shift toward focusing on their own brands. For the six months ended September 30, 2022, sales of own brands accounted for 85.49% of revenue, up from 63.57% in Fy20.

Increasing wine awareness and consumption: Through its distribution network, it can increase the availability and visibility of its brand. They intend to maintain their focus on increasing sales volumes in specific geographies by expanding their distribution network, optimizing distribution operations, and increasing product supply to the aforementioned underserved markets. Company's initiatives included a combination of social media lifestyle and wine influencer activities, through which "influencers" with a significant following conduct promotional activities for their Wine Tourism Business through their Company's or their own social media channels, Their strategy of engaging popular influencers with significant followings on social media platforms such as Instagram helps them leverage their extensive network to amplify their message, taking awareness of wine to a wider audience.

Leader and pioneer of the wine tourism business in India: The company was a leader in wine tourism in India, which resulted in a significant D2C presence. They feel that their resorts, restaurants, and tasting rooms have contributed to India's development of a distinctive wine culture. For instance, they developed the concept of wine tourism in India by opening the country's first wine tasting room in Fiscal 2005 at their facility in Nasik, Maharashtra, and another tasting room in Fiscal 2017 at their "Domaine Sula" location in Karnataka. They provide carefully designed experiences at their wineries, like wine tasting events, winery tours, and gourmet dining options, allowing them to forge closer bonds with their customers and boost wine tourism across the nation. During the fiscal years 2020, 2021, and 2022 as well as the six months ending September 30, 2022, they had about 90,000, 43,000, 85,000, and 59,000 wine tasting sessions, respectively. With almost 368,000 visitors to their vineyards in Fiscal 2020, they are the most frequented vineyard in India. However, amid the lockdowns and restrictions brought on by COVID-19 and imposed by the Indian government in Fiscals 2020 and 2021, their facilities remained restricted to visitors. They have reopened their facilities in compliance with the government's instructions once the lockdowns were lifted. The Source at Sula and Beyond by Sula vineyard resorts are owned and/or operated by them as part of their wine tourism business. These resorts are situated at and close to their facilities in Nasik, Maharashtra, and as of September 30, 2022, they will have a total accommodation capacity of 67 rooms.





Threats & Concerns

Risk from climatic conditions: Because grapes are their primary raw material, adverse climatic conditions have an impact on the quality of wine grapes. They generally address the climate change risk by crushing more grapes when the harvest is conducive to managing inventories in the event of a failed monsoon or poor crop in the following harvest cycle.

State regulations: In states where the wine market is price-controlled, they may only adjust the retail prices of their products with the approval of the state governments. It is possible that their business will suffer if they are unable to increase revenues sufficiently to offset increased costs due to inflation.

Business is highly regulated: The business in which the company operates is highly regulated, with changing laws, rules, and regulations, as well as legal uncertainties, such as the adverse application of corporate and tax laws. The unfavorable changes mentioned above may have a negative impact on business and financial performance.

Early Market: The Indian wine market is relatively young, facing imminent challenges as consumption of alcohol and spirits in particular, is highly prominent compared to wine consumption in India.

Concentration Risk: Due to the concentration of their processing facilities, raw materials, and business operations in western and south-western India, any significant social, political, economic, or seasonal disruption, as well as natural disasters or civil unrest in these areas, could have a negative impact on the company's operations, results, future cash flows, and financial condition.

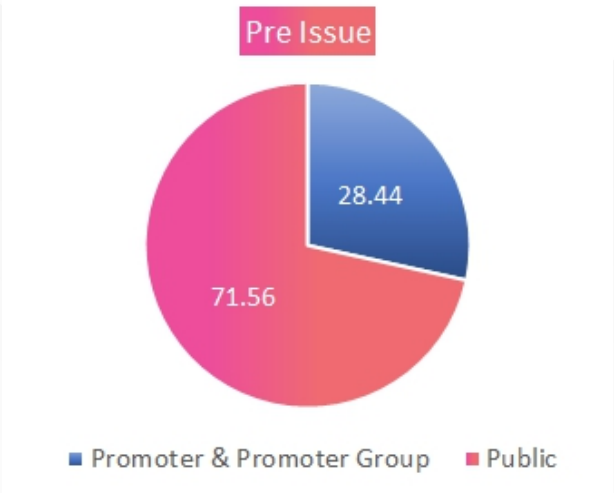
Prohibition On Commercials: Alcohol beverage items are not allowed to be advertised in India, hence companies cannot use standard methods to do so.

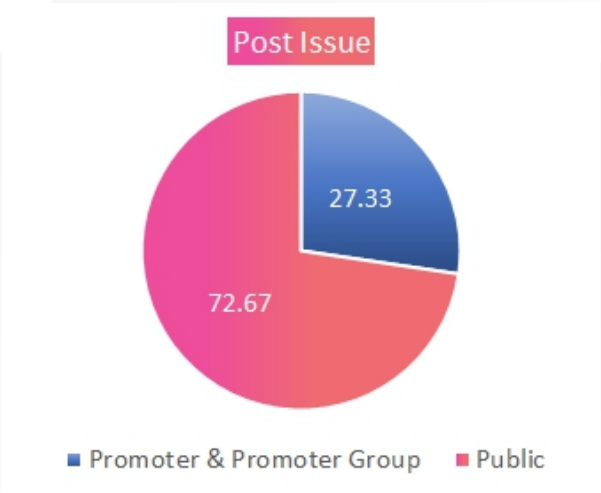
Valuations

Sula Vineyards Limited is a recognised market leader in the Indian wine industry. It is the country's largest wine producer, with the most comprehensive and innovative product line, and the largest wine distribution network and sales presence. Sula Vineyards Limited is also the country's leader and innovator in the wine tourism industry.
At upper price band Sula vineyards limited is available at P/E 35.8x and market cap of ₹ 3,005.8 Cr post issue of equity shares and return on net worth of 11.45%. As of 8 December 2022, its listed peers such as united Spirits trades at TTM P/E of 61.59, Radico Khaitan trades at TTM P/E of 58.87, United Breweries trades at TTM P/E of 85.02 and Globus Spirits trades at TTM P/E of 18.76.

Pre and post-issue shareholding pattern (%)

	Pre Issue	Post Issue (at higher price band)
Promoter & Promoter Group	28.44%	27.33%
Public	71.56%	72.67%





Particulars	FY 20	FY 21	FY 22	TTM
Financial Position				(₹ In Cr)
Equity Share Capital	15	15.1	15.7	16.3
Reserve & Surplus	284.9	289.7	379.5	432.9
Current Borrowings	269.3	201.9	146.8	135.9
Total Liabilities	831	751.6	758.6	771
Property Plant And Equipment	326.3	304	344.4	341.2
Inventories	171.3	143.9	162.3	147.3
Cash And Cash Equivalents	40.3	51.8	19.6	22.5
Operating Results				(₹ In Cr)
Revenue From Operations	521.66	418	453.9	518.8
Cost Of Material Consumed	(109.3)	(66.9)	(111.44)	(110.7)
Gross Profit	257.8	228.5	307.3	363.9
EBITDA	48.9	61	113.3	147.2
EBIT	13.9	35.3	89.7	122.7
Profit/(Loss) Before Tax	(17.4)	3.2	69.5	105.2
Provision For Tax	1.5	(0.2)	(17.4)	(27)
Profit/(Loss) After Tax	15.7	3	52.1	78.1
Cash Flows				(₹ In Cr)
Operating Activity	44.7	119.5	87.4	98.4
Investing Activity	(44)	(21.7)	(56.8)	(52.8)
Financial Activity	33.4	(94.5)	(61.3)	(47.8)
Net Cash Flows	34	3.4	(30.6)	(2.2)
Ratios				
Return On Equity	-5.2%	1.7%	13.2%	17.4%
Return On Capital Employed	3.4%	9.1%	18.6%	23%
Return On Asset	-1.9%	0.7%	6.9%	10.1%
Book Value Per Share	35.6	36.2	46.9	53.3
Gross Profit Margin %	49.4%	54.7%	67.7%	70.1%
EBITDA Margin %	9.4%	14.6%	25%	28.4%
Dividend Per Share	0.5	0	4.6	5.7
Asset Turnover Ratio	0.6	0.6	0.6	0.7

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