

# Sula Vineyards Ltd. (SULA)

Alco-Bev | NBIE Investor Conference Update

**NOT RATED**
**CMP: Rs290 | Target Price (TP): NA | Upside: NA**
**February 21, 2025**

## Several initiatives in place to aid growth trajectory

### Key Points

- We recently hosted Mr. Abhishek Kapoor, CFO and Mr. Mandar Kapse, IR Head at Sula Vineyards Ltd at our NBIE Investor Conference to get insights into the industry environment, the company's actions and initiatives and future plans
- Within the core states - in Karnataka, regulatory challenges subsided in 2QFY25 and Sula is hopeful of demand coming back from 4QFY25 and 1QFY26; several initiatives are being taken to focus on elite and premium category in Maharashtra
- Exports account for 2-2.5% for Sula due to the presence of trade barriers. The company to focus on domestic markets as they offer higher growth prospects and expand in Chandigarh, Delhi, Gurgaon, parts of Rajasthan and Madhya Pradesh

**Company background:** One of India's largest wine producers and seller, Sula Vineyards Ltd was incorporated as Nashik Vintners Ltd in 2003. The company's business is classified under 2 categories (1) Wine Business – production, import and distribution of wines and spirits (2) Wine Tourism Business - sale of services from ownership and operation of wine tourism venues, including vineyard resorts and tasting rooms. Sula operates wineries in Maharashtra and Karnataka, which are India's premier grape-growing regions. Over the past two decades, the company has consolidated its position as the leader in the Indian wine industry with ~60% market share in India in grape wine under the Elite and Premium category.

**Company's brand portfolio:** Sula's wide portfolio comprises 68 labels spread across 14 brands namely RASA, Dindori, The Source, Satori, Madera, York, Samara, Mosaic, Port, Dia with its flagship brand Sula. The company's latest release includes Sula in a Can launched in 3 flavors of Red, White and Rose.

**3QFY25 result highlights:** (1) Overall net revenue de-grew by 0.6% YoY. For 9MFY25, revenue grew by 1.7% YoY (2) While the Economy & Popular segment declined by 14.6% YoY in value terms, the Elite & Premium segment grew by 5.6% YoY. In volume terms, the former decreased by 5.6% YoY, while the latter increased by 3% YoY (3) Elite & Premium contributes ~80% to the overall portfolio (4) Wine Tourism grew 11.6% YoY led by healthy growth with higher occupancy (81% vs 76% last year), spend per guest in a vibrant festive season.

**Other highlights:** (1) Wine category to bounce back to strong growth trajectory as consumer headwinds moderate (2) Wine in Cans introduced in Sula Fest met with positive response to have further range expansion (3) UP Excise policy to encourage more beer and wine is progressive. With more states following suit, the same is likely to be beneficial for the category (4) Imported wines in overall premium category for Sula is less than 3% and declining. To be reduced to 2 brands (from 3) starting FY26.

Est Change	NA
TP Change	NA
Rating Change	NA

### Company Data and Valuation Summary

Reuters:	SULA.BO
Bloomberg:	SULA IN Equity
Mkt Cap (Rsbn/US\$m):	24.5 / 282.0
52 Wk H / L (Rs):	584 / 287
ADTV-3M (mn) (Rs/US\$):	118.6 / 1.4
Stock performance (%) 1M/6M/1yr:	(23.4)/(40.1)/(49.8)
Nifty 50 performance (%) 1M/6M/1yr:	(0.5) / (5.6) / 3.9

Shareholding	1QFY25	2QFY25	3QFY25
Promoters	25.5	24.7	24.7
DII's	22.2	21.7	19.9
FII's	12.0	10.6	9.6
Others	40.3	43.1	45.8
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Particulars (Rsmn)	FY21	FY22	FY23	FY24
Net Sales	3,859	4,244	5,165	5,677
Growth YoY%	-20.5	10.0	21.7	9.9
Gross margin %	59.2	72.4	74.2	76.4
EBITDA	609	1,132	1,575	1,759
EBITDA margin %	15.8	26.7	30.5	31.0
Adj PAT	50	521	841	933
Growth YoY%	-	938.2	61.4	11.0
Adj EPS	0.7	6.6	10.0	11.1
Growth YoY%	-	938.2	61.4	11.0
RoCE	5.8	15.5	20.8	19.3
RoE	1.7	14.9	18.1	17.2
P/E	436.2	43.8	29.1	26.3
EV/EBITDA	43.7	23.2	16.3	14.9
P/BV	8.0	6.2	4.6	4.5

Source: Ace Equity, Bloomberg, Company, Nirmal Bang Institutional Equities Research

**Key Links - [3QFY25 IP](#)**

**[FY24 Annual Report](#)**

Please refer to the disclaimer towards the end of the document.

## Following are the key highlights from our interaction:

### Industry environment

- Sluggish urban demand has impacted wine category more vs other discretionary categories due to higher urban exposure of the category, hence muted growth in 3QFY25
- Challenges in 9MFY25 due to overall economy and challenging instances in bigger markets
- However, no structural disruption to growth
- Category to bounce back to strong growth trajectory
- While headwinds persist, liquidity push to boost consumption to augur well in terms of near term outlook for the Industry

### 3QFY25 performance for Sula

- Green shoots seen
- Decent 8% growth, excl Maharashtra (MH) and Karnataka (KN). But for sluggish environment, growth would have been better
- Top 5 states (excl MH and KN) had strong DD growth. The share in all other markets combined is at >50%
- As growth in non-core states inches up, the share of MH and KN to reduce going ahead
- Sula's saliency in Elite and Premium category has increased to 80% as of 9MFY25 from 65% 3 yrs ago. Elite and Premium mix in Tamil Nadu (TN) at ~97%, Rajasthan and Madhya Pradesh (MP) at ~85-90%. The company is awaiting favorable state policies to introduce Economy and Popular in non-core states
- Decline in gross margin – There was Rs50mn impact in 3QFY25 on gross profit as well as EBITDA (direct flow through) due to capping of Maharashtra Wine Industrial Promotion Scheme (WIPS) credit that the company receives in its Dindori winery by Rs200mn annually. However, the bottling infrastructure has been reset now. 4 units in Nasik have bottling capacity now. So FY26 onwards, the company can harvest 100% of the potential WIPS benefit.
- Sula has now a distributor for supplying wine to all wine tourism outlets
- Profitability pressures seen due to operating de-leverage and few one-offs plus higher market spends (discounts and consumer propositions) to tackle sluggish consumer demand. Such spends are not likely to continue ahead
- Hospitality sector had a good quarter despite headwinds. Encouraging 4QFY25 on the back of Sula Fest held in Feb'25 (after 5 years)

### Measures to boost wine consumption in India undertaken by Sula

- Conducting tasting sessions pan India to recruit consumers. Impact to be seen once headwinds moderate
- Trade tie-ups, setting up of more forums to act as consumer touch-points
- Wine growth to come from pull impact and not just push impact
- Moscato Wine emerged as a higher selling wine from tourism business. Red wine adoption is at a later stage. Many females shift to red wine – hence, availability of the RASA range

## Maharashtra and Karnataka

- Several initiatives being taken to focus on the elite and premium category in Maharashtra (MH). Addressing the state by slicing it into 2 segments - Mumbai and rest of MH. Competitive intensity seen in cheap wine segment, hence partnered with an outsourced partner for sales execution in the whole state. Project to end in 4QFY25 and drive growth in the economy and popular wine segment. Positive results of the outsourcing being seen in the state with separation of GTM to augur well to bring back growth in the economy and popular wines. MH to go back to normalcy by 2HFY26
- Regulatory challenges in Karnataka (KN) subsided in 2QFY25 and company is hopeful of demand coming back from 4QFY25 and 1QFY26

## Wine tourism efforts by Sula

- Category development via Sula Fest
- Over time, wine tourism has aided in consumer onboarding
- However, impact restricted as can't be replicated in other states. But, has high rate of conversion as seen in-house
- Wine in Cans introduced in Sula Fest witnessed higher preference

## Wine in a Can

- Introduced in Sula Fest and had positive response
- Accounts for 1-2% of overall business
- Available in 3 flavors each in Red, White, Rose categories
- To expand range further
- Better gross margin vs bottle wines

## Expansion in non-core states

- Market expanding for Sula in Chandigarh, Delhi, Gurgaon, parts of Rajasthan, Madhya Pradesh(MP)
- Strategy to penetrate deeper and expand more in new domestic markets
- Consumer made to taste 6 different wines (with likely 1/6 conversion). Consumer adopts sweeter wine
- Offer only Elite and Premium in non core states
- Expansion into these states is not margin dilutive as higher taxes and higher spends gets offset with portfolio mix offering
- UP Excise policy to encourage more beer and wine is progressive. With more states following suit, the same is likely to be beneficial for the category
- Telangana has not been a strong market historically for Sula. Not beneficial from tax view vs MH and KN. Now good growth being seen sequentially due to company specific efforts to create touch-points, recruit consumers. 3rd largest market for Sula now

- Currently, Sula has Economy and Popular wines only in MH and KN. In northern states, the portfolio is mainly skewed towards the Elite and Premium category. Basis tax measures, company to introduce Economy and Popular in other states of UP, Uttarakhand, MP

## On-trade vs Off-trade

- For Sula, pre Covid on and off trade had equal share at 50% each
- Post Covid off trade picked up to 70%
- Off trade has higher operating margins and with consumer behavior moving to in-house consumption of alco-bev, its better that share of off trade remains higher

## Other points

- Sula does not foresee much adverse impact of FTA agreements. If at all, it will help make inroads into India at a fair price, create demand and a consumer set at each price point
- Farming – Sula has competitive edge here. Wine grape is only 5% of overall grape cultivation in India. Sula facing no supply constraints. Farmer relations are strengthening. With capacity expansion by 2mn litres in FY25, overall capacity stands at 16.6 mn litres for Sula
- Contract farming – 2 large players have tried to get into domain, but no threat for Sula. Entry of more players to help set price table which is now only defined by Sula
- Wine ageing in oak barrels is at 5% for Sula, hence not a large part of inventory to be carried over a long time period
- Industry value mix is at 2/3 domestic and 1/3 imports. Industry volume mix is at 80/20 domestic and imports respectively
- Exports account for 2-2.5% for Sula due to presence of trade barriers. Company to focus on domestic markets as they offer higher growth prospects
- Imported wines in overall premium category for Sula is less than 3% and declining. To be reduced to 2 brands (from 3) starting FY26

## Financials (consolidated)

### Exhibit 1: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22	FY23	FY24
<b>Net Sales</b>	<b>4,852</b>	<b>3,859</b>	<b>4,244</b>	<b>5,165</b>	<b>5,677</b>
Growth YoY%	-3.0	-20.5	10.0	21.7	9.9
<b>Gross profit</b>	<b>2,578</b>	<b>2,285</b>	<b>3,073</b>	<b>3,834</b>	<b>4,339</b>
<b>Gross margin %</b>	<b>53.1</b>	<b>59.2</b>	<b>72.4</b>	<b>74.2</b>	<b>76.4</b>
Staff costs	657	555	653	782	870
% of sales	13.5	14.4	15.4	15.1	15.3
Other expenses	1,431	1,121	1,287	1,477	1,711
% of sales	29.5	29.0	30.3	28.6	30.1
<b>EBITDA</b>	<b>489</b>	<b>609</b>	<b>1,132</b>	<b>1,575</b>	<b>1,759</b>
Growth YoY%	-28.7	24.5	86.0	39.1	11.7
<b>EBITDA margin %</b>	<b>10.1</b>	<b>15.8</b>	<b>26.7</b>	<b>30.5</b>	<b>31.0</b>
Depreciation	350	257	236	259	316
EBIT	139	352	896	1,316	1,442
Interest	329	334	229	211	262
Other income	16	36	28	35	77
PBT (bei)	-174	54	695	1,140	1,258
PBT	-174	31	695	1,140	1,258
ETR	22.4	12.1	25.0	26.3	25.8
PAT	-132	25	521	841	933
<b>Adj PAT</b>	<b>-138</b>	<b>50</b>	<b>521</b>	<b>841</b>	<b>933</b>
<b>Growth YoY%</b>	<b>-</b>	<b>-</b>	<b>938.2</b>	<b>61.4</b>	<b>11.0</b>

Source: Ace Equity, Company, Nirmal Bang Institutional Equities Research

### Exhibit 2: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22	FY23	FY24
Share Capital	150	151	157	169	169
Reserves & Surplus	2,875	2,897	3,795	5,152	5,331
<b>Net worth</b>	<b>3,026</b>	<b>3,047</b>	<b>3,953</b>	<b>5,320</b>	<b>5,500</b>
Long term debt	788	591	481	543	518
Short term debt	2,693	2,021	1,468	897	2,166
<b>Total debt</b>	<b>3,481</b>	<b>2,612</b>	<b>1,949</b>	<b>1,440</b>	<b>2,684</b>
Other non-current liabilities	458	359	251	240	1,311
<b>Total Equity &amp; Liabilities</b>	<b>6,965</b>	<b>6,019</b>	<b>6,153</b>	<b>7,000</b>	<b>9,495</b>
Gross block	4,359	4,129	4,773	5,502	5,925
Accumulated depreciation	813	952	1,161	1,370	1,382
<b>Net Block</b>	<b>3,546</b>	<b>3,178</b>	<b>3,612</b>	<b>4,132</b>	<b>4,543</b>
CWIP	1	1	10	19	48
Intangible and others	-	-	-	-	-
Other non-current assets	223	268	258	416	1,566
Investments	1	0	0	-	-
Trade receivables	1,544	1,236	1,094	1,145	1,696
Inventories	1,713	1,439	1,623	1,789	1,978
Cash & Cash equivalents	403	518	196	338	1,049
Other current assets	1,035	740	793	1,552	299
<b>Total current assets</b>	<b>4,695</b>	<b>3,934</b>	<b>3,705</b>	<b>4,823</b>	<b>5,023</b>
Trade payables	853	583	674	821	835
Other current liabilities	649	778	759	1,570	850
<b>Total current liabilities</b>	<b>1,502</b>	<b>1,361</b>	<b>1,433</b>	<b>2,390</b>	<b>1,685</b>
<b>Total Assets</b>	<b>6,965</b>	<b>6,019</b>	<b>6,153</b>	<b>7,000</b>	<b>9,495</b>

Source: Ace Equity, Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Cash flow

Y/E March (Rsmn)	FY20	FY21	FY22	FY23	FY24
<b>PBT</b>	<b>-174</b>	<b>32</b>	<b>695</b>	<b>1,140</b>	<b>1,258</b>
Depreciation	350	257	236	259	316
Interest	309	317	214	190	245
Other adjustments	59	38	52	12	-63
(Inc.)/dec. in working capital	17	481	-157	-425	-199
Tax paid	-114	72	-167	-278	-344
<b>Cash flow from operations</b>	<b>447</b>	<b>1,195</b>	<b>874</b>	<b>899</b>	<b>1,212</b>
Capital expenditure (-)	-453	-165	-550	-691	-593
<b>Free cash flow</b>	<b>-7</b>	<b>1,031</b>	<b>325</b>	<b>208</b>	<b>619</b>
Others investing activities	42	57	76	121	242
<b>Cash from investing activities</b>	<b>-412</b>	<b>-108</b>	<b>-474</b>	<b>-570</b>	<b>-351</b>
Issuance of share capital	15	16	561	963	21
Movement of Debt	761	-588	-723	-372	1,079
Dividends paid (-)	-109	-	-194	-454	-780
Others financing activities	-333	-372	-256	-231	-295
<b>Cash from financial activities</b>	<b>333</b>	<b>-945</b>	<b>-613</b>	<b>-94</b>	<b>25</b>
<b>Change in cash balance</b>	<b>369</b>	<b>143</b>	<b>-212</b>	<b>236</b>	<b>886</b>
Opening cash balance	34	375	408	102	164
Closing cash balance	403	518	196	338	1,049

Source: Ace Equity, Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Key ratios

Y/E March	FY20	FY21	FY22	FY23	FY24
<b>Per share (Rs)</b>					
Adj EPS	-1.8	0.7	6.6	10.0	11.1
Book value	35.8	36.1	46.8	63.0	65.2
<b>Valuation (x)</b>					
P/Sales	5.0	6.3	5.8	4.7	4.3
EV/EBITDA	56.4	43.7	23.2	16.3	14.9
P/E	-158.7	436.2	43.8	29.1	26.3
P/BV	8.1	8.0	6.2	4.6	4.5
<b>Return ratios (%)</b>					
RoCE	2.2	5.8	15.5	20.8	19.3
RoE	-4.4	1.7	14.9	18.1	17.2
<b>Profitability ratios (%)</b>					
Gross margin	53.1	59.2	72.4	74.2	76.4
EBITDA margin	10.1	15.8	26.7	30.5	31.0
PAT margin	-2.8	1.3	12.2	16.2	16.2
<b>Liquidity ratios (x)</b>					
Current ratio	1.1	1.2	1.3	1.5	1.3
Quick ratio	0.7	0.7	0.7	0.9	0.8
<b>Solvency ratio (x)</b>					
Debt to Equity ratio	1.2	0.9	0.5	0.3	0.5
<b>Turnover ratios</b>					
Fixed asset turnover ratio (x)	1.2	0.9	1.0	1.0	1.0
Debtor days	125	131	100	79	91
Inventory days	124	149	132	121	121
Creditor days	62	68	54	53	53
Net Working capital days	187	213	178	147	159

Source: Ace Equity, Company, Nirmal Bang Institutional Equities Research

## DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

**Analyst Certification:** I, Krishnan Sambamoorthy, research analyst and Sunny Bhadra, research associate, the author(s) of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.



## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD -5% to 14%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

\*"Registration granted by SEBI and certification from NISM in no way guarantee the performance of the intermediary or provide any assurance of returns to investors."

Our reports are also available on our website [www.nirmalbang.com](http://www.nirmalbang.com)

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## Nirmal Bang Equities Pvt. Ltd.

### Correspondence Address

B-2, 301/302, Marathon Innova,  
 Nr. Peninsula Corporate Park,  
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010