

29th December 2023

Sula Vineyards Ltd. – BUY

CMP : Rs. 494
Target Price : Rs. 595
Upside : 20%+
Stop Loss : Rs. 468 (Closing basis)

Investment Thesis

- Wines make up a small at less than 1% of India in the Alcobev industry. The market is concentrated with over 90% of revenues being contributed by Maharashtra, Karnataka, New Delhi, and Goa. Sula Vineyards Ltd. (Sula) has more than 65% market share in the Indian wine industry.
- Sula has a Winery capacity of 16.7 Mn liters spread across 2,800+ acres of vineyards (significantly higher than the next two Wine producers in India) and has ~24,000 points of sales across India. It is among the top 5 wineries in Asia.
- In total, Sula has three bottling plants in Maharashtra and Karnataka. In Maharashtra, the largest winery, Domaine Dindori is located around 38 Km from Nashik and has a tank capacity of over 8.74 mn liters, being responsible for bottling and supplying all the wines (excluding York) to all markets. Similar activities are carried out in the Karnataka plant of Domaine Sula, besides production.
- Sula's primary focus remains the Elite and Premium category, which is above Rs. 700, and the segment now contributes 72.3% in FY23 up from 67.8% in FY20. Of all the labels, 'Sula Shiraz Cabernet' has been the largest-selling wine in India, contributing ~24% in the own-brands revenue in FY22. During Q2FY24, the Company launched Source Pinto Noir, which is the first Pinot Noir wine from the house of Sula.
- Sula has outlined a strategic approach to capitalize on underpenetrated markets, targeting cities such as Chennai, Kolkata, and popular tourist states like Kerala, Rajasthan, and Goa, along with other tier 1 & 2 cities across India.
- Sula's negotiating power is significantly greater over its suppliers due to its long-term supply agreements with 500+ framers, creating a one-to-many scenario and reducing the suppliers' bargaining power.
- In comparison to the leading spirits and beer companies, Sula benefits from a much lower excise duty expense, with only around 7% of their gross revenue allocated to excise, leaving an impressive 93% of sales with the Company.

Financials

- Sula recorded an all-time-high with Revenue up by 22% YoY, at Rs. 556 Cr., EBITDA of Rs. 161 Cr, up by 38.7% and a PAT of Rs. 84 Cr., growing at 61% YoY.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue (Rs in Crs)	485	386	424	516	594
EBITDA (Rs in Crs)	53	64	113	158	178
Adj. PAT (Rs in Crs)	(16)	3	52	84	89
Adj. EPS (Rs.)	(1.86)	0.35	6.18	9.96	10.55
PE Multiple (x)	(268x)	1,405x	81x	50x	47x
RoE (%)	(6%)	1%	14%	16%	16%

Stock Data

Market Cap (Rs. Crs)	4,203
Market Cap (\$ Mn)	506
Shares O/S (in Mn)	84.4
Avg. Volume (3 month)	1,63,830
52-Week Range (Rs.)	535 / 316

Shareholding Pattern

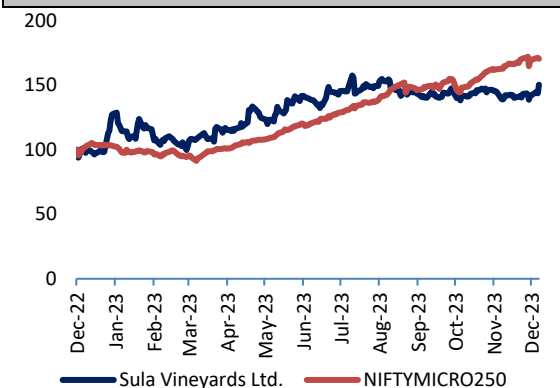
Promoters	26.27 %
FII's	20.61 %
Institutions	17.52 %
Others (incl. body corporate)	35.60 %

Key Ratios

Div Yield	1.05%
TTM PE	46.4x
ROE	18.2%
TTM EPS (Rs.)	10.72/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	8.1%	8.4%	50.7%
NIFTYMICRO250	3.2%	(33.4%)	(16.7%)



- The EBITDA margin for FY23 stood at 29.1%, 350bps higher as compared to the previous year. PAT margins grew by 370bps at 15.2% over FY22. The volume growth was recorded at 19% on YoY basis. Revenues from Elite and Premium wines have grown by 170bps in value and 230bps in volume, led by focus on premiumization.
- During FY21-23, their own-brands business and wine tourism achieved 13% and 17% CAGR growth, respectively. Owned brands contributed a significant 87% to the revenue growing by 26% YoY, and Wine Tourism revenue grew by 30% YoY.
- Estimated FY24 capex stands at Rs. 55 Cr., the total capex for FY23 and FY24 combined stands at Rs. 140 Cr.

Key Business Highlights

- Sula Vineyards is India's leading wine producer, with a passion for creating premium wines. Sula has wineries in Maharashtra and Karnataka, India's premier grape-growing regions. Rajeev Samant set up the first vineyard in Nashik in 1996 and has played a pivotal role in revolutionizing India's wine industry.
- Sula manufactures red, white, rosé, and sparkling wines, under the still and sparkling wines categories. Under the third-party brands, Sula imports wine and spirits from foreign companies and distributes them in India. The winery has an impressive portfolio of 56 own wine brands and 21 international third-party wine and spirits labels.
- Sula is a pioneer in wine tourism in India. It was the first winery in India to open wine-tasting rooms, a vineyard resort, a wine music festival, and winery tours at its facility in Nashik, Maharashtra.
- The company generated >4 mn kWH from Solar energy at Sula's owned and leased facility in Maharashtra and Karnataka, which has an installed Solar PV capacity of 2MW that provides for 50%+ of annual energy needs in FY23.

Valuation

Sula Vineyards is currently trading at Rs. 498 which is ~7% down from its 52-week High of Rs. 535. It currently commands a PE of 46.4x against the Industry PE of 32x. Sula's fundamentals remain strong considering its sustainable and growth outlook, thus, justifying its healthy valuations.

We are ascribing a **BUY** rating for Sula Vineyards with a **Target Price of Rs.595**, translating in an upside of 20%+.

Risk & Concern

- The Alcobev industry in India is highly regulated with regulatory power in the hands of individual states. This has tendered the industry to be vulnerable to the vagaries of frequent changes in regulations.
- Wine's share in the overall Alcobev volume is less than 0.3%, and its value share is ~1%, primarily due to the strong competition from its impeccable substitutes, beer, and spirits.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

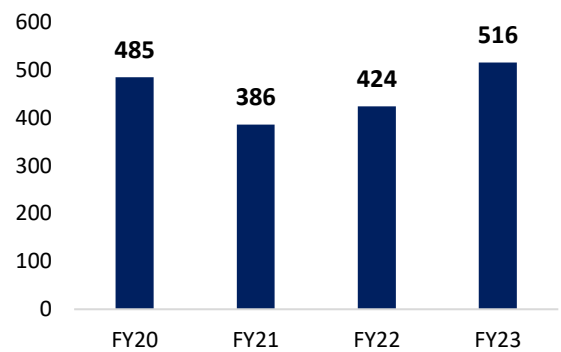


Figure 2: EBITDA & EBITDA Margin Trend

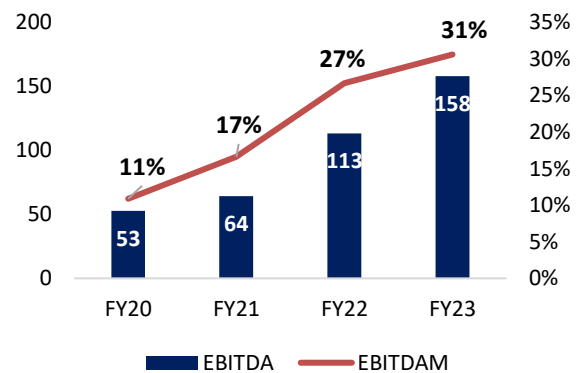


Figure 3: Business Segment-wise Revenue Contribution (FY23)

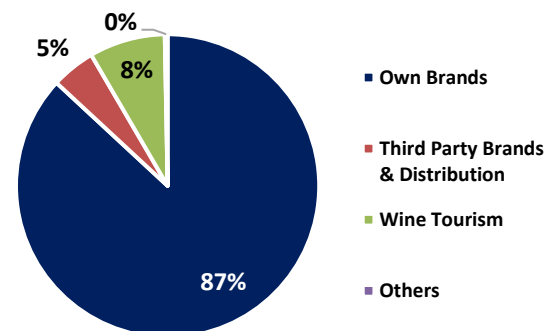
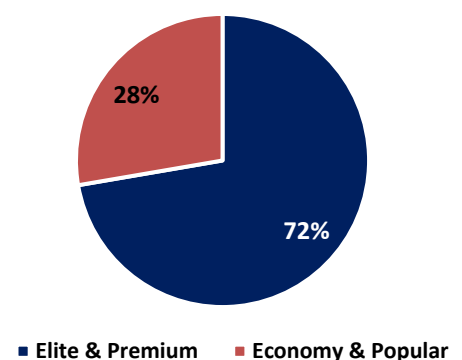


Figure 4: Owned Brands Revenue by Category (FY23)



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