



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Q1 FY24 consolidated revenues came in at ₹117 Cr, up 27.17% YoY and up 3.53% QoQ.
- Op Profit for Q1FY24 stood at ₹31 Cr, up 24% YoY and up 0% QoQ.
- Op margins for Q1FY24 came at 28%, 100 bps YoY and 100 bps QoQ.
- PAT for Q1FY24 stood at ₹14 Cr, down 27.27% YoY and down 0% QoQ.

2. MANAGEMENT COMMENTARY:

- Company appointed Mr. Abhishek Kapoor as the new CFO.
- The company is confident in its case regarding the excise duty order and expects a positive outcome.
- The VAT refund from the Maharashtra government is expected to be renewed.
- The company expects to maintain EBITDA margin the range of 27%.

3. CONCALL SUMMARY

- Premium wines saw a surge of over 35% in value and 30% in volumes.
- Wine tourism revenue grew by 12% and the company added 27 new rooms to its resorts.
- The company plans to invest INR 55-60 crores in capex for expanding production capacity and sustainability initiatives.
- Sula Vineyards continues to focus on increasing wine awareness and consumption through tastings, partnerships, and events.
- Company aims to maintain market share and continue expanding in Tier 1 and Tier 2 cities.
- The wine tourism business is expected to show strong double digit growth momentum.
- The company aims to increase its presence in music festivals and explore opportunities in events like IPL and World Cup.
- Sula Vineyards has gained market share in the premium and elite segments, while the economy and popular segments have seen a slight decline.
- Telangana is the company's third-largest market after Maharashtra and Karnataka.

4. VALUATION AND OUTLOOK:

Company posted muted results on QoQ basis but the wine market in India is expected to grow at a CAGR of 20%-25%. Indian population is experiencing a shift that is normalizing the drinking culture, especially in metropolises.

With the wine industry growing with good pace, the company is on strong footing the ride the wave, hence, we initiate a "BUY" rating on the stock and value the stock at 41.16x FY24E earnings to arrive at the target of 587.

RECOMMENDATION - BUY

CMP – 489
TARGET – 587 (20%)

Industry	Breweries & Distilleries
NSE CODE	SULA
BSE CODE	543711
Market Cap (₹ Cr)	4166
Shares Outstanding (in Cr)	8.44
52 wk High/Low (₹)	535 / 305.35
P/E	49.48
P/BV	7.60
Face Value (₹)	2.00
Book Value (₹)	64.86
EPS (FY23) (₹)	9.97
Dividend Yield (%)	2.27
Debt / Equity	0.36
Interest Coverage	6.41

SHAREHOLDING PATTERN

	Jun 23	Mar 23	Dec 22
Promoters	27.27	27.33	27.33
MF/ DII	8.97	8.13	5.48
FII/FPI	6.78	5.86	7.42
Retail & Others	55.72	55.06	56.40
Promoter Pledging	9.56	9.56	21.90

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024E	2025E
Creole			
Sales	516.27	691.55	864.44
Sales Gr. (%)	21.64	25	25
EBITDA	157.46	207.47	259.33
EBITDA %	29.09	30	30
PAT	84.03	122.08	164.12
EPS (₹)	9.97	14.48	19.47
EPS Gr. (%)	50.35	45.23	34.46
Ratios			
RoE (%)	18.19	20.5	22.2
RoCE (%)	20.04	22.1	25.0
Valuation			
P/E (x)	36.87	34.25	25.47

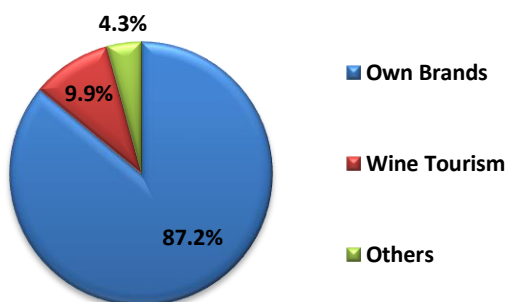
Historical & Industrial Val Ratios

Historical P/E	49.48
Industry P/E	66.54
Historical P/B	7.60
Industry P/B	9.10

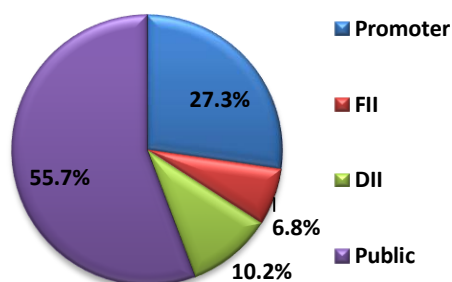


Company Overview (Q1 FY24)

Revenue Segments (Q1FY24)



Shareholding Pattern (Q1FY24)



QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY22		FY23				FY24		FY23	FY24E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E*		
Net sales	171	106	92	120	191	113	117	138	692	864
YoY change (%)					11.71%	6.38%	17.69%	18%	25.00%	25.00%
Total Expenditures	115	78	67	83	127	82	86	99	484	605
EBITDA	56	29	25	37	64	31	31	39	207	259
Margins (%)	33%	27%	27%	31%	34%	27%	28%	28%	30%	30%
Other income	1	1	1	1	1	1	2	1	4	4
Interest	6	5	5	5	6	5	5	4	19	17
Depreciation	6	6	6	6	6	7	8	7	29	27
PBT	45	19	15	26	53	20	20	29	163	219
Rate (%)	25%	27%	26%	26%	25%	29%	28%	25%	25%	25%
Adjusted PAT	34	14	11	19	39	14	14	22	122	164
EPS in Rs	4.37	1.73	1.35	2.39	4.67	1.69	1.62	2.60	14.48	19.47

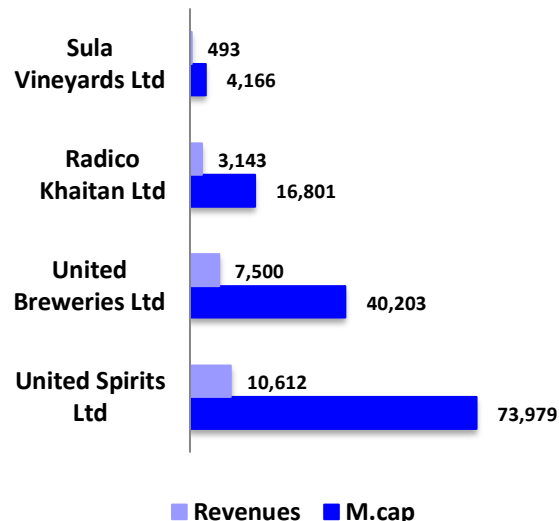
Source: Company, Hem Securities Research.



INDUSTRY OVERVIEW

- India is predominantly a spirits market with more than 90% of alcohol consumed in the form of spirits.
- The per capita consumption of spirits in India is one of the highest among top economies of the world. A comparison with world averages shows that the share of low alcoholic beverages in overall consumption of alcohol is more than 50%.
- In case of developed countries, it is more than 75% of overall alcohol consumption. In China's case, the share of low alcoholic beverages is more than 30%. India, with its share of low alcoholic beverages at close to 8%, is at a very low base and a prolonged period of correction in favour of wine and beer categories is bound to take place.
- The global alcobev market grew from \$530.85 billion in 2022 to \$569.58 billion in 2023 at a compound annual growth rate (CAGR) of 7.3%.
- The growing demand for beer, wine, and dark spirits is enhancing the sales of alcobev. Moreover, the rising popularity of pubs, bars, and restaurants is further anticipated to boost market growth.

KEY PLAYERS in Alco- Beverage Space



PEER PERFORMANCE

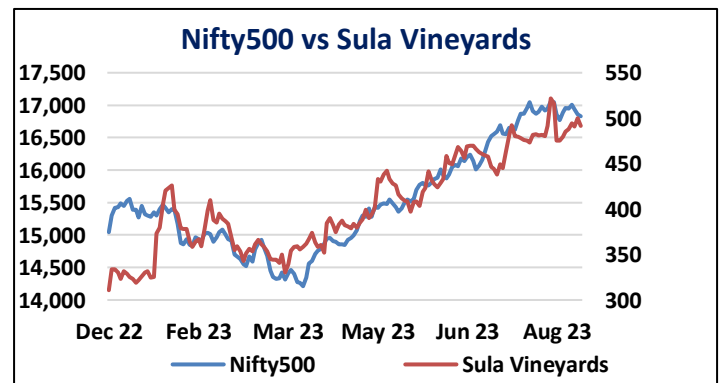
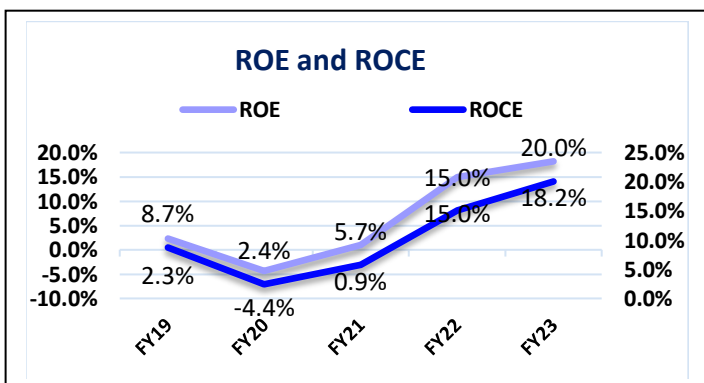
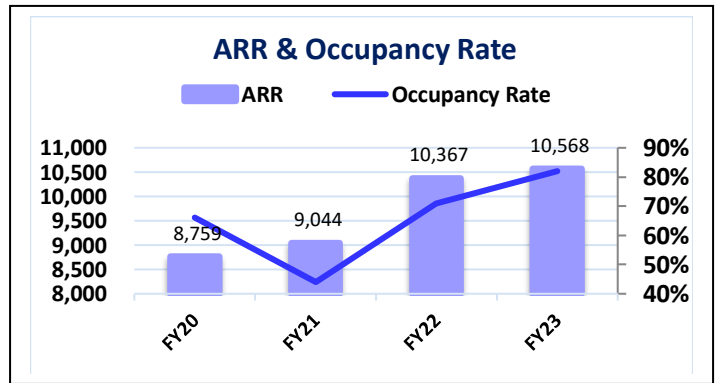
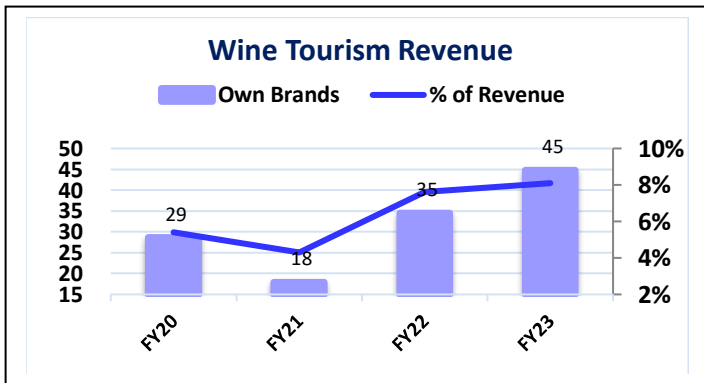
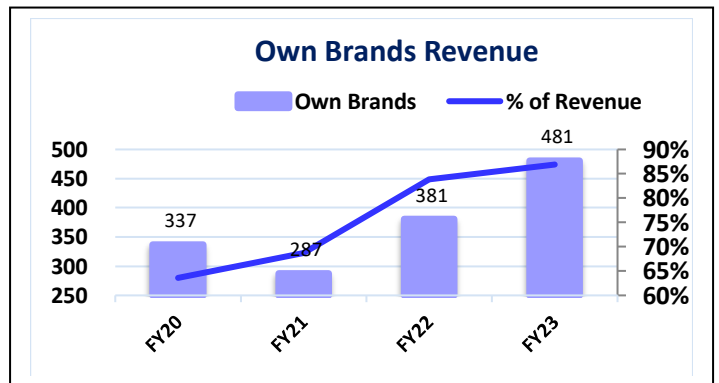
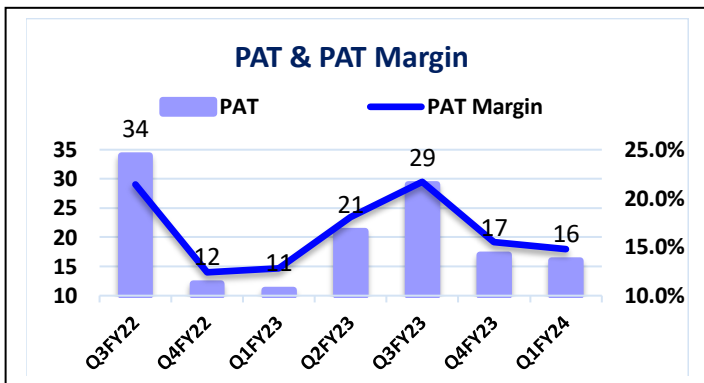
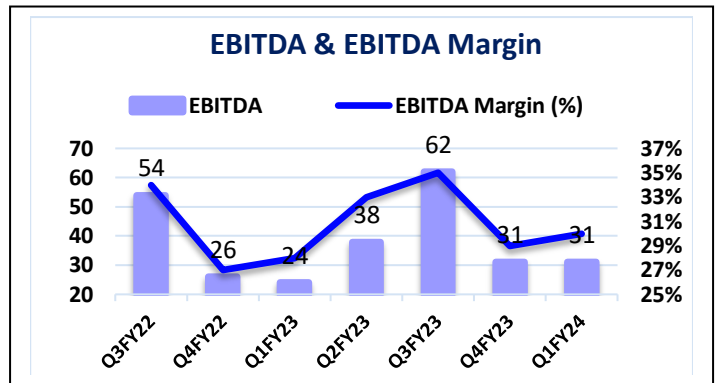
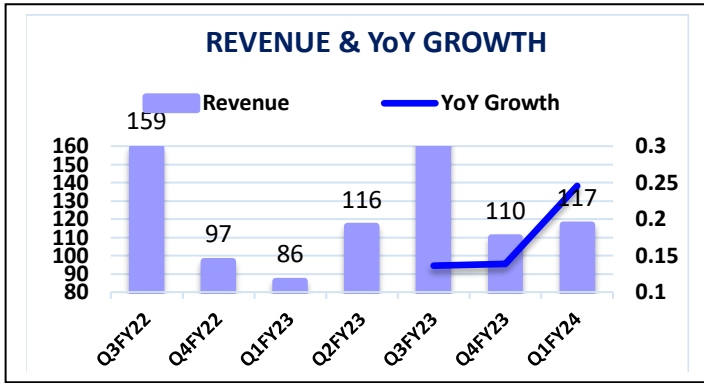
(₹ Cr)

Particulars	Sula Vineyards Ltd	Radico Khaitan Ltd	United Breweries Ltd	United Spirits Ltd
Market Cap	4,166	16,801	40,203	73,979
Net Sales	493	3,143	7,500	10,612
EBITDA	157.5	397.0	616.2	1,404.9
PAT	84.0	263.2	304.0	1,136.3
EPS(₹)	10.0	19.7	11.5	15.6
EBITDA MARGIN %	29.1	3.3	4.0	5.4
PAT MARGIN %	15.2	2.0	1.8	4.0
ROCE %	20.0	16.1	10.7	24.5
ROE %	18.2	13.0	7.7	20.6
P/E TTM	49.5	76.7	147.5	53.7
P/B TTM	7.6	7.7	10.0	11.2
EV/EBITDA	25.4	45.7	64.8	39.4
Dividend Yield %	1.7	0.2	0.5	-

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- **High Entry Barrier:** The wine sector is expected to 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. Although wine storage and ageing happens throughout the year, grape harvesting happens only in December to April and, thus, requires higher year- end inventory.
- Sula aims to tap the potential of the under penetrated wine industry in India with an offering of the widest product range in the Indian wine market. The share of wine as a form of alcohol consumption in India in CY21 was less than 1%
- Sula has a presence in 26 states and 6 union territories in India. With access to more than 24000 points of sale, Sula products have high visibility and availability across the country.
- Increasing wine awareness and consumption, and penetrating further into Tier-1 and 2 cities in India.

RISK / NEGATIVE FACTORS:

- The company has long term supply arrangements (with a contract life of up to 12 years with an option for renewal) with ~500 contract farmers. The rates payable under these contracts are fixed on a per kilogram basis subject to the fulfilment of predetermined parameters. The quality of grapes may also be affected by adverse climatic conditions.
- Erratic and changing climate and weather patterns impact the growth of grapes and other agricultural sources of wine. Premium grapes are particularly sensitive to even minor changes in temperature, affecting production quality.
- Winemaking is an expensive process, which requires careful maintenance of vineyards and the overall winemaking process, making it a high operational cost business.

COMPANY RECAP

- Incorporated in 2003, Sula Vineyards Limited is the India's largest wine producer and seller as of March 31, 2022. 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")
- Sula is the market leader across all the four price segments, being 'Elite' (Rs 950+), 'Premium' (Rs 700-950), 'Economy' (Rs 400-700) and 'Popular' (<Rs 400).
- The company is run by experienced management comprising of Mr. Rajeev Samant who is the MD and CEO of the company, Mr. Chetan Desai who is Chairman and Non-executive Independent Director, Mr. Alok Vajpeyi who is Non-executive Independent Director, etc.



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)	
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	
Revenue from operations	500.17	485.24	385.94	424.41	516.27	691.55	864.44	
Growth YoY (%)	31.94	-2.98	-20.46	9.97	21.64	25	25	
Total Expenditure	431.56	436.32	325.00	311.13	358.81	484.09	605.11	
(%) of sales	86.28	89.92	84.21	73.31	69.50	70.00	70.00	
EBITDA	68.61	48.92	60.94	113.29	157.46	207.47	259.33	
EBITDA Growth (%)	28.68	-28.14	27.76	79.92	38.66	31.76	24.99	
EBITDA Margin (%)	12.64	9.54	15.44	25.57	29.09	30	30	
Depreciation	19.74	35.00	25.70	23.61	25.89	29.18	27	
EBIT	50.53	15.50	36.57	92.46	135.06	178.29	232.33	
EBIT Growth (%)	28.50	-69.33	135.97	152.82	46.08	32.00	30.31	
Net Interest Expenses	24.51	32.89	33.39	22.92	21.08	19	17	
Other Income	1.66	1.58	3.57	2.78	3.49	3.49	3.49	
Earnings before Taxes	26.02	-17.39	3.19	69.54	113.98	162.78	218.82	
EBT Margin (%)	4.68	-3.28	0.76	15.32	20.60	23.53	25.31	
Tax-Total	18.84	-3.89	0.38	17.40	29.94	40.69	57.71	
Rate of tax (%)	72.41	22.34	11.96	25.02	26.27	25	25	
Net Profit	7.18	-13.51	2.81	52.14	84.03	122.08	164.12	
PAT Growth (%)	-41.90	-288.14	120.77	1,758.79	61.17	45.28	34.43	
PAT Margin (%)	1.29	-2.55	0.67	11.49	15.19	17.65	18.99	
Minority Interest	0.00	0.26	-0.29	0.00	0.00	0.00	0.00	
Adjusted PAT	7.18	-13.25	2.52	52.14	84.03	122.08	164.12	
EPS	0.96	-1.76	0.33	6.63	9.97	14.48	19.47	
EPS Growth (%)	-42.99	-284.11	118.97	1,885.57	50.35	45.23	34.46	

Balance Sheet

Y/E March	2019	2020	2021	2022	2023
Share Capital	15	15	15	16	17
Reserves	307	284	288	377	515
Net Worth	322	299	303	393	532
Borrowings	0	393	315	240	203
Other Liabilities	133	139	132	124	147
Total Liabilities & Equity	769	831	752	759	881
Fixed Assets	325	355	318	361	413
CWIP	0	0	0	1	2
Investments	0	0	0	0	0
Other Assets	444	476	434	396	466
Total Assets	769	831	752	759	881

Source: Company, Hem Securities Research.



Ratios

Y/E March (Basic (INR))	2019	2020	2021	2022	2023
Profitability and return ratios					
Net profit margin (%)	1.29	-2.55	0.67	11.49	15.19
EBITDA margin (%)	12.64	9.54	15.44	25.57	29.09
EBIT margin (%)	9.09	2.93	8.75	20.37	24.41
ROE (%)	2.25	-4.35	0.93	14.98	18.19
ROCE (%)	8.74	2.42	5.74	15.03	20.04
Working Capital & liquidity ratios					
Payables (Days)	151.66	161.03	201.41	296.26	323.99
Inventory (Days)	94.96	113.23	137.66	123.11	112.53
Receivables (Days)	109.39	114.63	121.38	93.68	73.87
Current Ratio (x)	1.09	1.10	1.16	1.28	1.57
Valuations Ratios					
EV/sales (x)	0.60	0.71	0.69	0.53	6.31
EV/EBITDA (x)	4.29	6.79	4.10	1.94	20.23
P/E (x)	0.00	0.00	0.00	0.00	36.87
P/BV (x)	0.00	0.00	0.00	0.00	5.83
Dividend Yield (%)	0.00	0.00	0.00	0.00	2.27
Leverage Ratio					
Debt/Equity (x)	0.91	1.23	0.99	0.58	0.36

Cash Flow Statement

Y/E March	2020	2021	2022	2023
CF from Operating activities (A)	45	120	87	88
CF from Investing Activities (B)	-44	-22	-57	-73
CF from Financing Activities (C)	33	-94	-61	-9
Net Cash Flow	34	3	-31	6
Add: Opening Bal.	3	37	41	10
Closing Balance	37	41	10	16

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
31 August 2023	Buy	587

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