

## SVL | Initiating Coverage Report

## Sula Vineyards Ltd.

Leading a small market with higher growth

18<sup>th</sup> August 2023

Founded in 1999 by Rajeev Samant, Sula Vineyards Ltd. (SVL) is a leading winery in India, with a revenue split of 92:8 (FY23) between its wine business and wine tourism. The winery has an impressive portfolio of 56 own wine brands and 21 international third-party wine and spirits labels. As of FY23, it has six production plants in Maharashtra and Karnataka, with an installed capacity of 16.7 Mn liters and sources grapes from over 2,800 acres of land from more than 500 framers. SVL holds 52% of India's unfortified market share in volume terms and 61% in elite and premium segment in value terms (FY23). During FY21-23, their own-brands business and wine tourism achieved 13% and 17% CAGR growth, respectively. Further, the Company increased its plant capacity by 14% on YoY basis to 16.7 Mn liters in FY23, whereas they increased the room capacity by 49% to more than 100 rooms in over 15 months ending Q1 FY24.

## SVL to grow on the back of industry growth

The wine industry in India is projected to double its current ~1% contribution in the beverage alcohol market as of CY22E to ~2% in value terms in the next 6-7 years, indicating significant growth prospects. Despite the promising outlook, India's wine market is still underpenetrated, with consumption concentrated in specific states and cities, and per capita consumption remaining low compared to global averages. To capitalize on underpenetrated markets, the Company has outlined a strategic approach targeting specific states, and tier 1 & 2 cities across India. Additionally, the Company has been actively launching elite wines and premium labels, successfully gaining a significant market share in this category. To strengthen its market position further, the Company is focused on expansion and growth opportunities, including exploring direct-to-consumer opportunities and remaining open to acquisitions. With a robust future vision, the Company strives for substantial growth in the coming 6-7 years, bolstering its standing through a 61% market share in value terms in the elite and premium market segment.

## Moat securing SVL's bright prospects

SVL's strong moat is evident from its strong bargaining power across the supply chain and high barriers to entry. The Company has higher negotiating power over its supplier because it creates one-to-many scenario between itself and 500+ framers, who are bound by long-term supply agreement, which reduces supplier's bargaining power. This is evident from ~60% average gross margin (FY18-23). Up against the buyers, SVL has pricing autonomy as over 75% (FY23) its business takes place in 3 free-pricing states. SVL's pricing power is demonstrated by its ~6% average annual price increase on its own brands. The industry's barriers to entry are high due to lengthy gestation periods, aiding the top three players who hold an 80% combined share.

## View &amp; Valuation

We believe that SVL's wine consumption will grow at 15% volume and 4% price in FY24, and it will maintain its market leadership, and further empower its moat. Therefore, we initiate coverage on SVL with a BUY rating using relative valuation by discounting the 10-year median EV/EBITDA multiple of USL by 25%, giving a target price of Rs. 587, indicating an upside of ~20%.

## BUY

CMP Rs. 489

TARGET Rs. 587 (+20%)

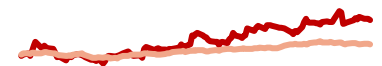
## Company Data

Bloomberg Code	SULA IN
MCAP (Rs. Mn)	41,301
O/S Shares (Mn)	84
52w High/Low	535/388
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	370

## Shareholding Pattern %

	Mar-23	Dec-22	Sep-22
Promoters	72.95	72.95	72.95
FII's	3.21	3.26	3.19
DII's	21.95	22.28	22.43
Non-Institutional	1.89	1.50	1.43

## SVL vs Nifty



Feb, 23	May, 23	Aug, 23
SVL	SVL	SVL
NIFTY	NIFTY	NIFTY

Source: Keynote Capitals Ltd.

## Key Financial Data

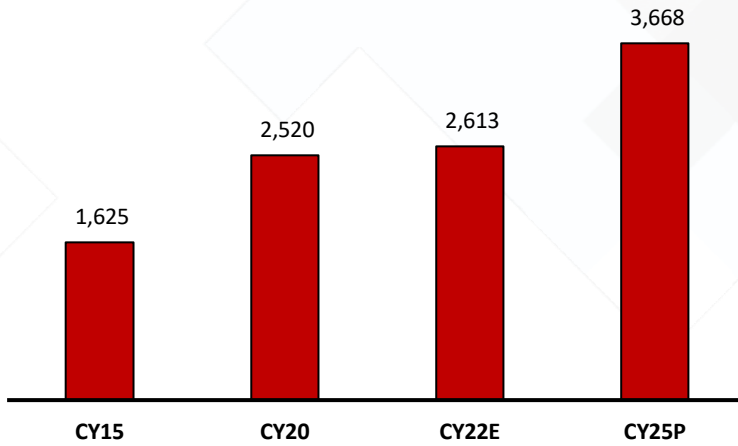
(Rs Mn)	FY23	FY24E	FY25E
Revenue	5	6	7
EBITDA	2	2	2
Net Profit	1	1	1
Total Assets	9	10	11
ROCE (%)	17%	18%	19%
ROE (%)	18%	19%	20%

Source: Company, Keynote Capitals Ltd.

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## Indian Alcoholic Beverage (Alcobev) Market

Alcobev Market Value (Rs. Bn)

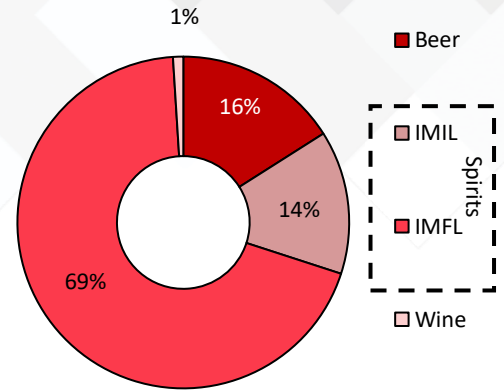


Source: Sula Vineyards Ltd. DRHP, Keynote Capitals Ltd.

IMIL – Indian-Made Indian Liquor, also known as Country Liquor

IMFL – Indian-Made Foreign Liquor

Alcobev Value Split (%) by Beverages in FY22E

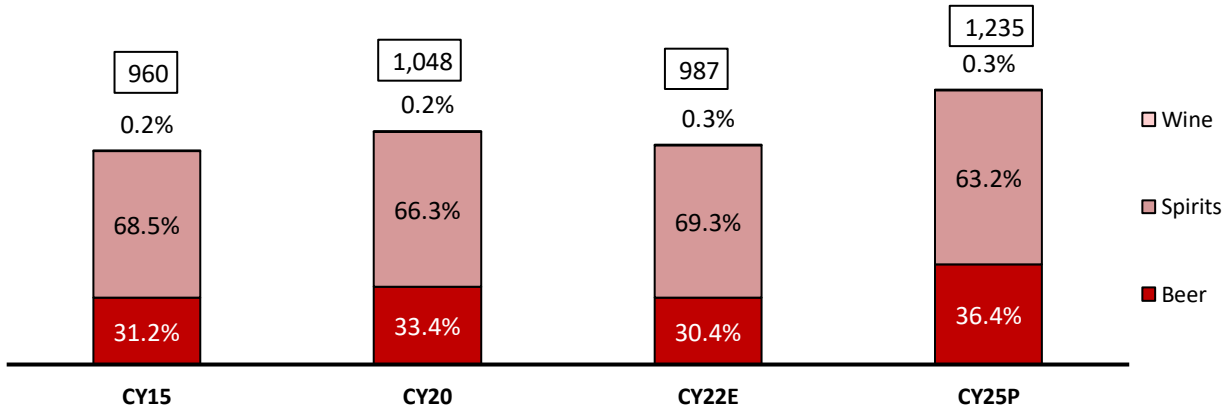


Source: Sula Vineyards Ltd. DRHP, Keynote Capitals Ltd.

IMFL includes 2% of imported spirits

According to Technopak Analysis, the industry is expected to compound overall wine sales (domestic and import) at 21% for the next 3 years (CY22-25) and double the industry’s contribution in beverage alcohol value market from ~1% in FY22 to 2% by FY30, leaving room for the Company to also double-triple its size in the industry.

Alcobev Market Volume (in Mn cases)



Source: Sula Vineyards Ltd. DRHP, Keynote Capitals Ltd.

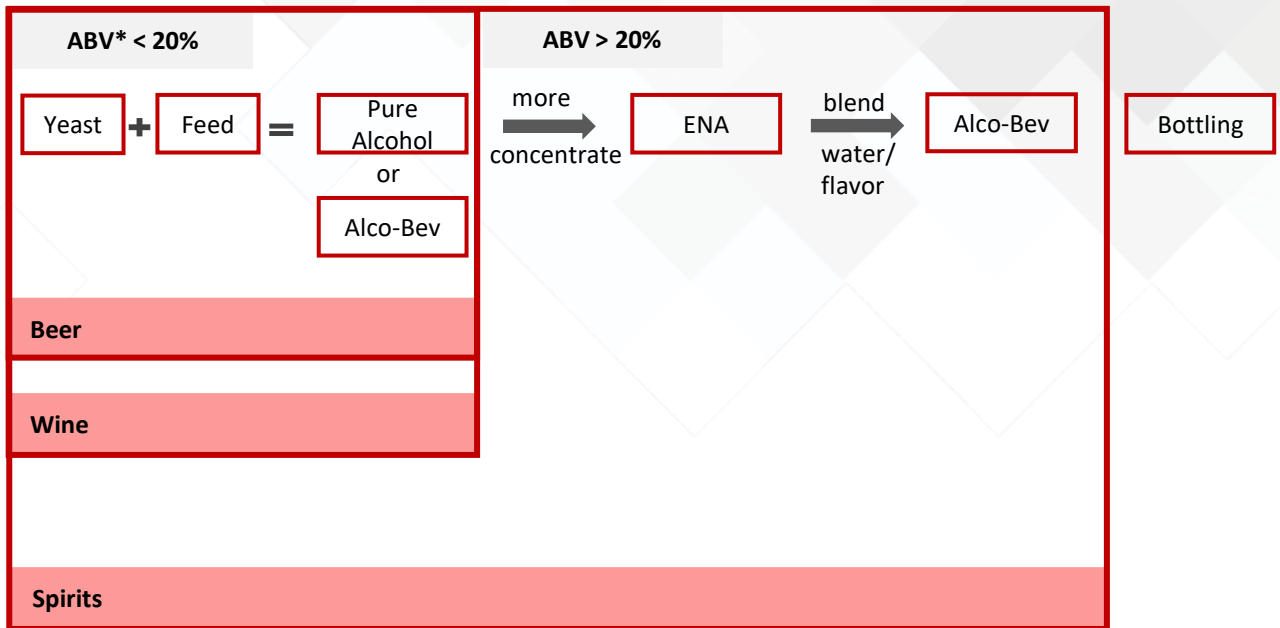
Spirits includes India Made Indian Liquor (IMIL) and India Made Foreign Liquor (IMFL)

India is the third largest alcobev, second largest spirits, and largest whisky and scotch market globally. India’s alcobev market has three popular beverages: IMFL, IMIL, and beer. However, socio-economically, IMFL and beer represents ~85% of India’s market in value terms as of FY22E.

India generates 20% value from on-trade (bars, pubs, etc.) and 80% off-trade (at home). India’s Gross Sales Per Case (GSPC) for the entire alcobev market has risen from ~ Rs. 1,700/case in CY15 to ~ Rs. 2,400/case in CY20 and is further anticipated to reach ~ Rs. 3,000/ case by CY25E on the back of premiumization.

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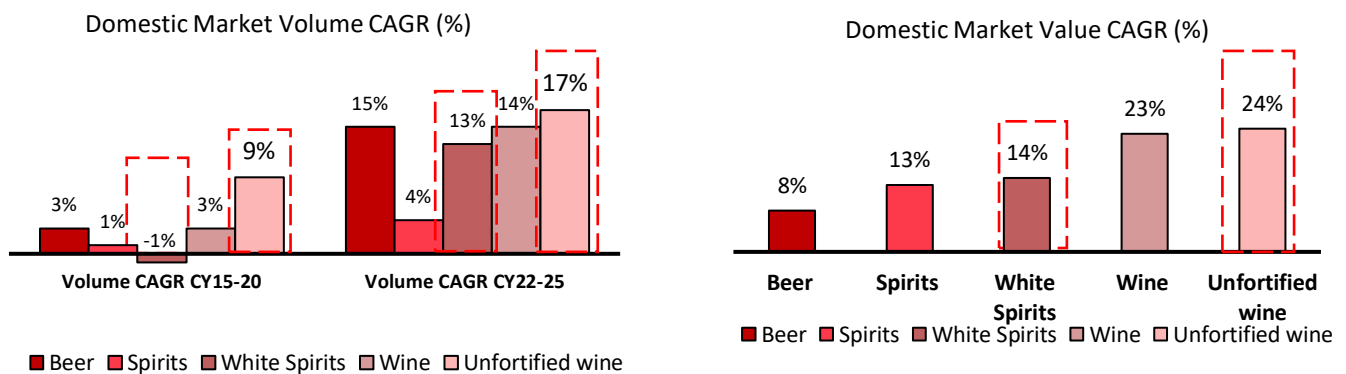
### The Process Behind Soft and Hard Liquor



Source: Keynote Capitals Ltd. \*ABV – Alcohol by Volume is the percentage of alcohol in a beverage, Feed – E.g., barley for beer, grapes for wine, and grains for spirits, ENA – Extra Neutral Alcohol is a form of more concentrated alcohol

### The driving sub-categories

There is a spectrum of choices within beer, spirits and wine. The sub-categories of beer include IPA, lager, and ale, while that of spirits include whiskey, brandy, rum, and white spirits (vodka, gin) and wine, spans fortified and unfortified varieties into its portfolio.



Source: Sula Vineyards Ltd. DRHP, Keynote Capitals Ltd. Spirits includes IMFL only

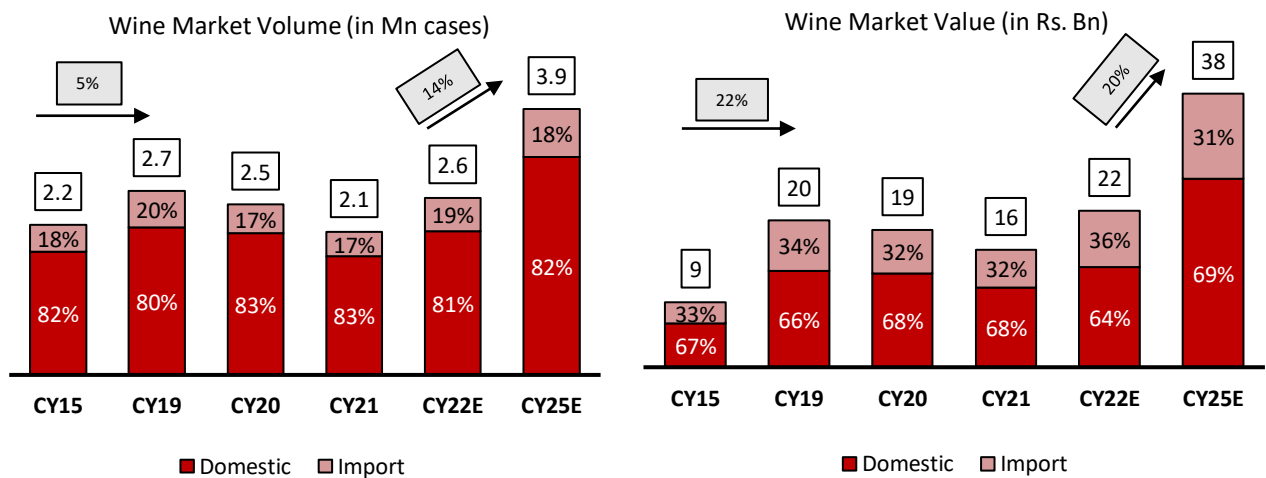
At the start of the 21<sup>st</sup> century, India was primarily focused on spirits, but the landscape shifted to include beer consumption. As of CY22E, IMFL and Beer, appealing to a similar demographic, constituted ~36% and ~30% of total alcohol consumption. The remaining ~33% was taken up by IMIL, and wine consumption was minimal at 0.3%. Yet, emerging high-growth segments include unfortified wine and white spirits, notably vodka, driven by their rising popularity among millennials. Within unfortified wines, red wines accounted for ~60% of the consumption in FY20.

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### Indian Wine Industry

In the 16th century, wine was introduced to Indians by native drinkers – Portuguese and French – in Goa. However, when the British Empire arrived, spirits took precedence in the Indian alcohol market. It was in 1970 that modern wine making began in India, but it didn't gain significant attention. Until 2000, wine was produced in India at a very small scale and was imported essentially to serve in 5-star hotels.

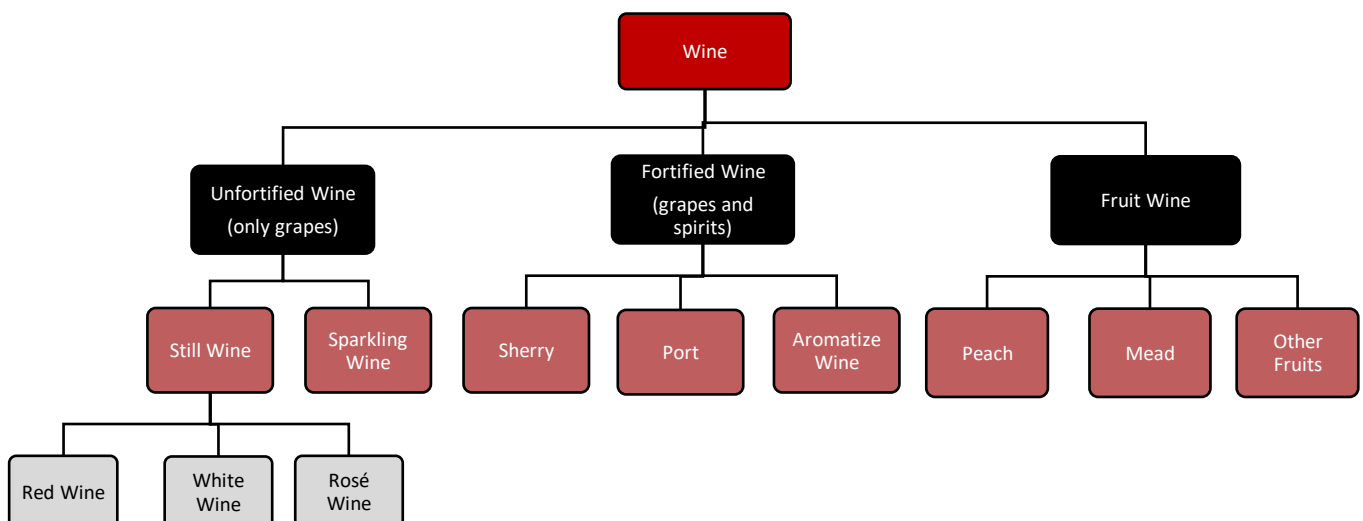
Post the milestone year of 2000, companies like SVL, Chateau Indage, Grover Zampa made significant strides in the wine market and states like Maharashtra and Karnataka declared policies catalyzing the growth of the wine industry. Since then, the dynamics overturned in favor of the domestic industry. From FY2000 to FY2021, the on-trade and off-trade split changed from 95:5 to 25:75, and the domestic and import split flipped from 0:100 to 84:16.



Source: Sula Vineyards Ltd. RHP, Keynote Capitals Ltd.

Domestic wine's gross realization per case has achieved a 10% CAGR over 7 years, reaching ~Rs. 6,600 in CY22E. In comparison, imported wine has seen an 11% CAGR to ~Rs. 15,700 per case in CY22E.

### Types of Wines



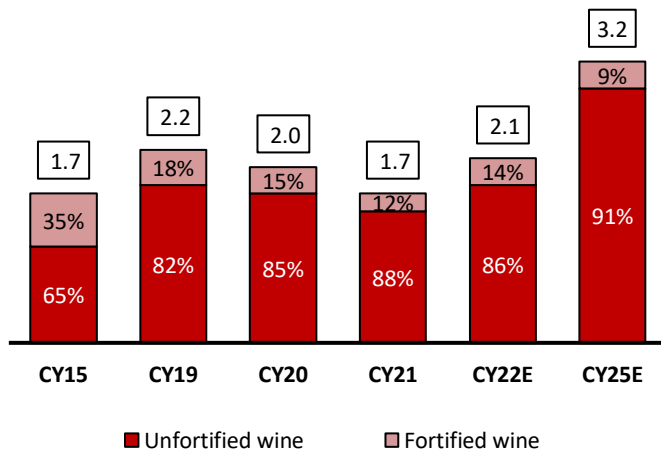
Source: Science Direct, Gourmet Hunters, Sula Vineyards Ltd. RHP, Keynote Capitals Ltd.

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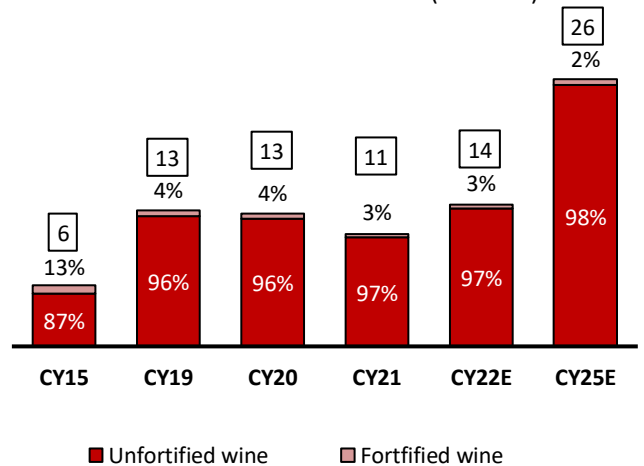
Unfortified wines are the ones that are made 100% of grapes and fortified wines are the ones that have spirits such as brandy to alter its taste. In India, unfortified wines dominate the wine industry, with fortified wines losing their share and fruit wines still endeavoring to make their notable contribution. Between CY15-20, the consumption of unfortified wines grew at ~9% CAGR and its value expanded at ~19%. On the other hand, the consumption of fortified wines decelerated at ~13% CAGR and its value fell by ~9% CAGR. Going forward, between CY22-25, Technopak expects a booming period for unfortified wines consumption to grow at ~17% CAGR and its value to prosper at ~24% CAGR and an unimpressive course for the volume of fortified wines but an impressive ~13% CAGR for its value growth.

India is the fastest-growing grape producer globally, ranking seventh in production in CY20, with over 1,40,000 hectares of grape farms. However, wine grapes make up less than 2% of the farms and about 1% of grape production, with the industry primarily focused on table grapes. In FY20, India produced 3.1 Mn metric tons of total grapes.

Domestic Wine Market Volume (in Mn cases)



Domestic Wine Market Value (in Rs. Bn)

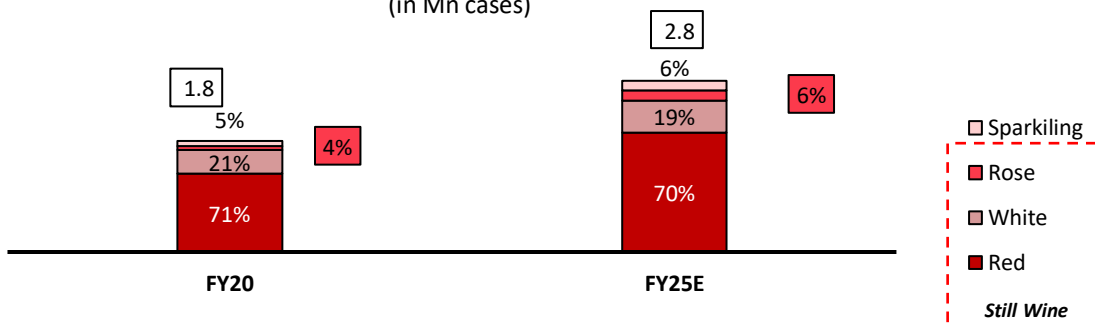


Source: Sula Vineyards Ltd. RHP, Keynote Capitals Ltd.

### Unfortified Wines

Unfortified wines are further classified as still and sparkling wines, where still wines include the likes of red, white and Rosé wines, making up ~95% of the unfortified wine and ~78% of the total domestic wine consumption for FY20. While red wine dominates ~60% of the domestic wine market, and rosé wine is expected to amass more business, and grow at 14% and 16%, respectively, while white wine is expected to continue to lose grounds.

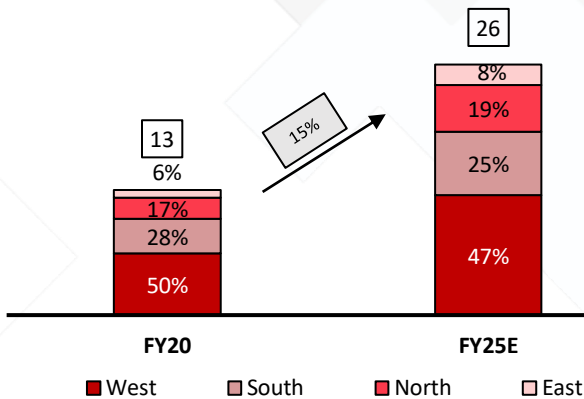
Domestic Volume Market of Types of Unfortified Wine (in Mn cases)



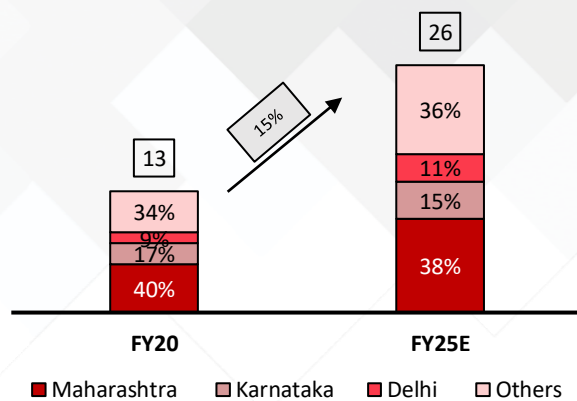
Source: Sula Vineyards Ltd. RHP, Keynote Capitals Ltd.

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Domestic Unfortified Wine Market Value  
Classified by Regions (Rs. Bn)



Domestic Unfortified Wine Market Value  
Classified by States (Rs. Bn)



Source: Sula Vineyards Ltd. RHP, Keynote Capitals Ltd.

Wine sales in India are heavily concentrated, with ~66% of total sales occurring in just three states as of FY20. Furthermore, according to Business Insider, five major cities, namely Mumbai, Bengaluru, Delhi, Pune, and Hyderabad, generate ~70% of the wine revenue as of Jun'23. This indicates a preference for wine predominantly among the urban population of India.

### Fortified Wine

In India, the domestic fortified wine sector is less preferred, which is priced around Rs. 1,400 per case in CY22E. In contrast, unfortified wine commands a premium of over 400% at approximately Rs. 7,400 per case. This segment is projected to experience a 4% CAGR from CY20 to CY25E.

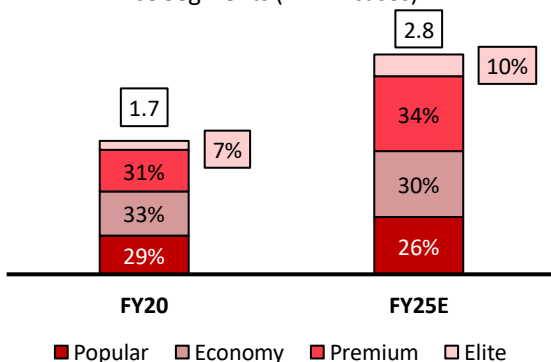
### Fruit Wine

The fruit wine in India is developing at small scale in small pockets of the country, where boutique wineries divulge in making wines from the local fruits. For example, apple wine in Himachal Pradesh; mango, chikoo and strawberry wine in Maharashtra; kiwi wine in Andhra Pradesh; and lychee and plum wine in north-east India. For some wineries, the distribution reaches across and beyond India as well.

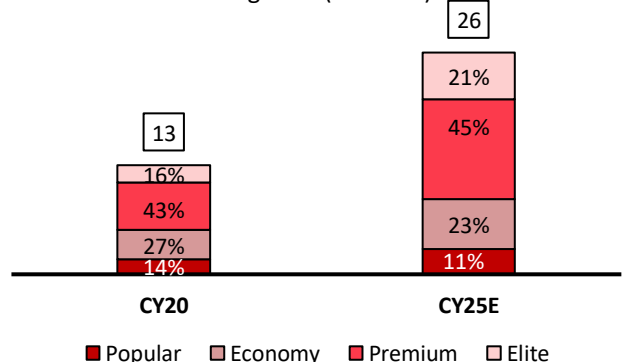
### Wine Market Divided by Price

The Indian wine market is not only divided by the process and taste of wine, but also by price segment.

Domestic Volume Market Classified by  
Price Segments (in Mn cases)



Domestic Market Value Classified by Price  
Segment (in Rs. Bn)



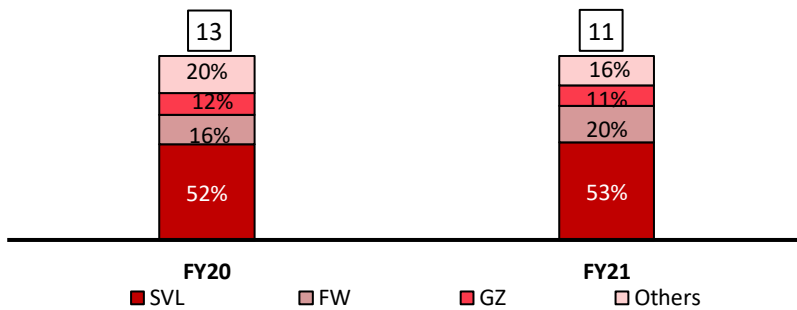
Source: Sula Vineyards Ltd. RHP, Keynote Capitals Ltd.

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The domestic sales of unfortified wine has expanded at a phenomenal 19% CAGR between CY15-20. The segments that headed the growth were economy with 18%, premium with 20% and elite with 25% CAGR. However, going forward, premium and elite and expected to be at the forefront of the domestic unfortified wine industry with 24% and 33% CAGR between CY22-25. The rationales for the same surround around premiumization supported by rise in income levels.

Among the top 3 states spending on wine, SVL is an outright leader with ~60% value share in Maharashtra, ~45% in Karnataka and ~40% in Delhi. With similar growth, Fratelli Wines, has thrived to outperform Grover Zampa in over a decade to become the second largest player in the said three states.

Market Size of Peers in Total Domestic Market (Rs. Bn)



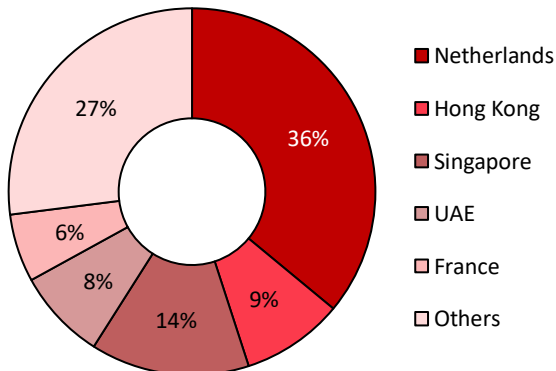
Source: Sula Vineyards Ltd. RHP, Keynote Capitals Ltd.

FW- Fratelli Wines, GZ – Grover Zampa

### Global Trade – Import and Export

Imported wines accounted for ~19% volume and 36% value in CY22E. In CY20, wine exports from India amounted to Rs. 358 Mn, comprising less than 1% of total exports. India held a 0.27% share in global alcoholic beverage exports in CY 2019, ranked 32nd. Phased tariff reductions on alcohol production materials could boost exports, highlighting India's potential in the wine industry.

Export Market Value of ~Rs. 560 Mn in FY20



Source: Sula Vineyards Ltd. DRHP, Keynote Capitals Ltd.

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### Wine Tourism

Agritourism is an emerging trend in the tourism industry that combines agricultural activities with tourism, offering entertainment and recreation for tourists. This practice provides significant support to a country's primary sector and promotes the development of remote and rural regions. Future Market Insights data estimates the global agro-rural tourism market to reach ~US\$ 91.6 Bn in 2023, with a predicted CAGR of 5.8% from 2023 to 2033.

Maharashtra, being a frontrunner in India, promoted agritourism by introducing agritourism policy in CY20. The state's agritourism policy plays a crucial role in wine tourism as Maharashtra contributes to ~78% of table grapes production, ~90% of wine grapes production, 40% of wine consumption as of FY20.

Wine enthusiasts visiting vineyards gain insight into the entire winemaking process, fostering long-term associations with wines by experiencing vineyard tour, wine tasting, grape stomping, dining, bottle shop and music festivals. Wine tourism has also led to a strong customer acquisition through the D2C channel, leveraging wine tasting experience, especially for the novice or new wine drinkers.

According to IMARC, the Indian agritourism market is projected to grow at ~20% between CY23 and CY28. This growth highlights the increasing popularity and potential of agritourism in India's tourism landscape.

### Regulations

- Excise duty - To operate legally, wine manufacturers and sellers need appropriate licenses under state legislation. The Government of Maharashtra granted an exemption from excise duty for wines produced without added alcohol and blending, requiring only Rs. 10 per bulk liter till December 2026.
- Maharashtra Grape Processing Industry Policy, 2001 - The Maharashtra Grape Processing Policy encourages wine production in the state, benefiting grape farmers in Nashik and Sangli districts. It offers various incentives for wineries, simplifies licensing procedures, allows wine sales in certain establishments, and establishes bodies to support the wine industry.
- Karnataka grape processing and wine policy - The Karnataka Grape Processing Policy, notified on March 14, 2007, declares wineries as horticultural and food processing industries, providing all relevant incentives. It simplifies licensing procedures, grants a 50% subsidy on machinery installation, permits wine sales through specific channels, and offers waivers and reductions in excise-related fees

Additionally, the policy introduces differential excise duties favoring locally produced wine.



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### Hopeful scope for Wine Industry

- Per capita wine consumption – India's per capita wine consumption is less than 100 ml, less than 1% of overall alcohol consumption, in contrast to the global average of 13% alcohol consumption via wine.
- Penetration in Tier 1 – Although only five major Indian cities contribute to around 70% (Jun'23) of wine sales, data from Statista shows that alcohol beverage consumption penetration in these cities ranges from 26% to 32% (CY21). The combined consumption of spirits and beer across the country is ~380 times greater than wine (CY22E), implying a much lower wine consumption penetration than reported by Statista. This underscores substantial potential for growth in tier one cities alone.
- Additional growth from Tier 2 cities – The demand for wine is not limited to Tier-1 cities but is also growing in Tier-2 and Tier-3 cities in India. It is no longer seen as a drink exclusively for the elite, as it is increasingly becoming popular among common Indian households.
- Increasing consumer base – With alcohol consumer base adding ~10-12 Mn people every year, portrays an optimistic outlook for the long-run. Further, India is expected to have ~1 Bn people of working population by CY 2030.

### Threats

- Beer and spirits might continue to remain the preferred categories in India even in the long run.
- Withdrawal of government favors in the form of subsidies, incentives, concession on taxes, etc, can impact profitability.

### Outlook

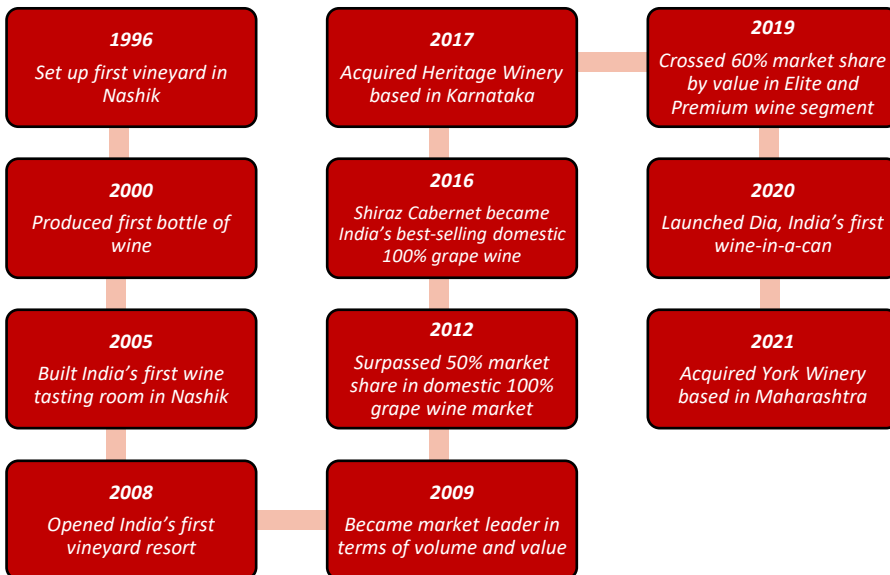
The wine industry has been established in India for decades, but it is currently experiencing a phase of relatively higher consumption. This growth is expected to be driven by continued government support and increasing awareness and adoption of wine. As a result, Technopak Analysis anticipate a volume growth of 14% and a value growth of 23% annually until CY25 for the overall wine market (domestic and import).

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### About the Company

Founded in 1999 by Rajeev Samant, Sula Vineyards Ltd. (SVL) is a leading winery in India with a revenue split of 92:8 (FY23) from its wine business and wine tourism business. The winery boasts an impressive portfolio of 56 own wine brands and 21 international third-party wine and spirits labels. As of FY23, the Company has six production plants in Maharashtra and Karnataka, SVL has an installed capacity of 16.7 Mn liters and sources grapes from over 2,800 acres. Commanding 52% market share in domestic unfortified wine market volume in FY23, the winery also exports its wines to over 20 countries, accounting for ~3% of its sales as of FY23. In addition to its winemaking endeavors, the Company also offers captivating wine tourism experiences, including wine tastings, shopping, music festivals, and resorts.

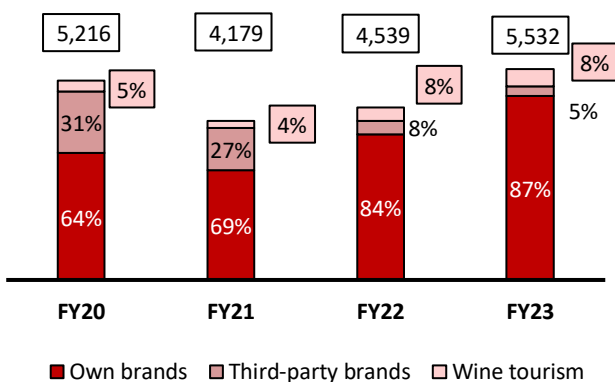
### Timeline



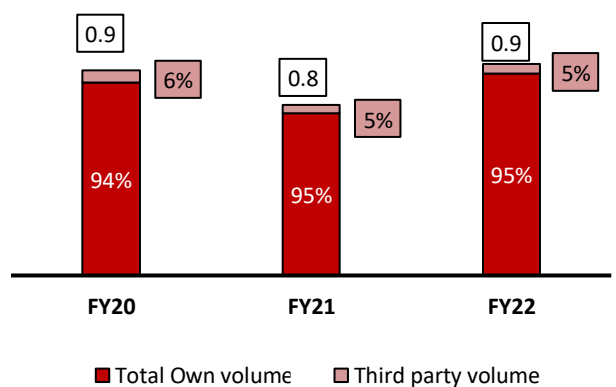
Source: Company, Keynote Capitals Ltd.

### Revenue Mix (%)

Gross Revenue Mix (Rs. Mn)



Volume Mix of Gross Wine Revenue (Volume in Mn cases)

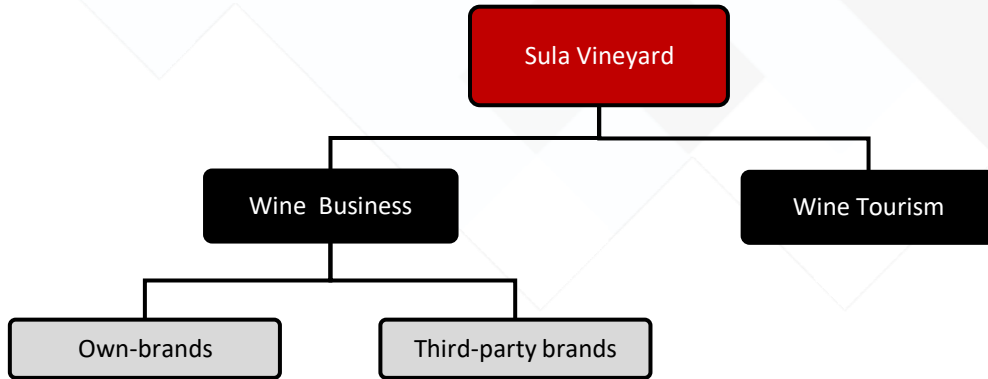


Source: Company, Keynote Capitals Ltd.  
FY23 own-brands volume: ~1M cases, third-party volume: NA.

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### Business Overview

SVL is a leading wine company with the largest production capacity of ~16.7 Mn liters as of FY23. The Company runs wine business with 56 owned and 21 third-party labels and two resorts for wine tourism.



Source: Company, Keynote Capitals Ltd.

### Wine Business

The wine business involves the production and sales of proprietary wines, as well as the importing and distribution of third-party wines and spirits in India.

In the own-brands business, the Company manufactures red, white, rosé and sparkling wines, under the still and sparkling wines categories. The Company has meticulously chosen not to produce the fortified wines as they are in the lower price point (< Rs. 200) and declining trend.

Under the third-party brands, SVL imports wine and spirits from foreign companies and distributes them in India. Over the years, the Company's revenue mix between the two segments have changed, especially after covid, which led to own-brands thriving from 67% (~Rs. 3 Bn) in FY20 to 95% (~Rs. 5 Bn) in FY23, implying a CAGR of 13% and third-party brands declining from 33% (~Rs. 2 Bn) to 5% (~ Rs. 0.3 Bn), suggesting a CAGR of -46%, over the said period.

The Company has maintained its leadership position in the industry, holding a commanding market share of over 50% since FY12. As of FY23, it stands at 52% in the domestic 100% grape wine (unfortified wine) market volume and an impressive 61% in the elite segment in terms of value.

Further, the business operations of SVL have been explained in the subsequent, following the sequence of supply chain, to underscore the Company's presence and penetration in each stage.

### The pursuit of raw materials – sourcing grapes

SVL, the largest winery in India, sources grapes from a vast expanse of ~2,800 acres of land as of FY23. To put this into perspective, this land area is equivalent to ~2,100 football grounds and stands over five times larger than the second biggest player in the industry, which is Fratelli Wines (FW).

In order to maintain substantiality of good quality grapes, SVL maintains long-term supply agreements with over 500 farmers who own ~2,290 acres of land as of FY22. This translates to ~90% of the total land cultivated for SVL and supplies about 90% of its annual grape demand for FY22.

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### The precision of vinification – the process of manufacturing wines

The first and one of the prominent activities in winemaking is grape crushing. Meticulously, to manage sustainable supply for wine and address the climate change risks, the Company crushes more grapes during favorable harvests to manage inventories in case of adverse weather conditions in subsequent cycles, ensuring stable sales. For example, in FY22, they crushed higher quantities to supplement FY23 inventory. Typically, a winery needs ~25% buffer at harvest as a standard practice, which is larger than that required by beer.

The production methods, including crushing, are customized to suit the characteristics of different varieties of wine. The following illustrates the same:

#### Based on color:

- Red wines: Made from black/red grapes, fermented with skin, and aged for ~3-4 months.
- White wines: Made from white/green grapes, no skin contact during fermentation, ready for bottling in ~2 months.
- Rosé wines: Made from red and black grapes, limited skin interaction, resulting in a pale hue.

#### Based on price segment:

- Popular and Economy segment wines: Made from table grapes.
- Premium and Elite segment wines: Made from wine grapes.

On an average, the fermentation process lasts between 1.5 to 3 weeks, for which ~90% of the wines crafted by SVL are aged in stainless steel tanks, while a select few elite wines undergo an aging period of 6-12 months in oak barrels.

The Company has 6 manufacturing plants in Maharashtra and Karnataka, with total installed capacity of ~16.7 Mn liters.

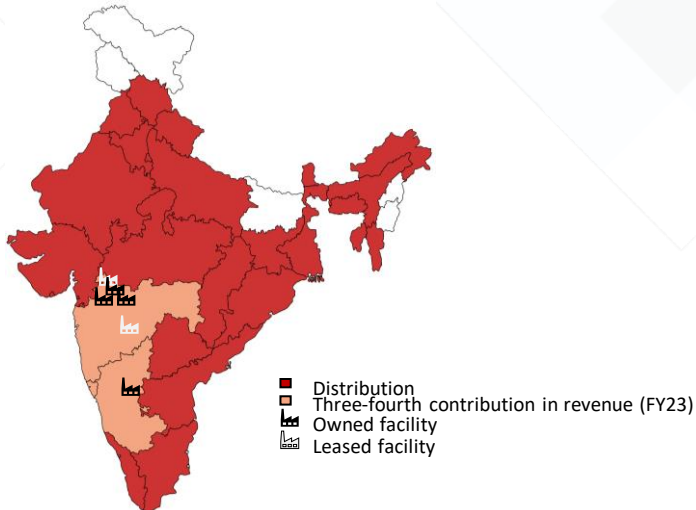
O/L	Name	E/L	State	Tank Capacity (mn liters, in FY22)	V	B	WT
Owned	Domaine Dindori	NA	Maharashtra	6.6	Yes	Yes	No
	Nashik Winery	2000	Maharashtra	4.6	Yes	No	Yes
	Domaine Sula	NA	Karnataka	1.1	Yes	Yes	Yes
	York Winery	2022*	Maharashtra	0.5	Yes	Yes	Yes
Leased	LW 1	2020	Maharashtra	0.9	Yes	No	No
	LW 2	NA	Maharashtra	0.7	Yes	No	No

Source: Company, Keynote Capitals Ltd. O – Owned, L- Leased, E- Established, V- Vinification (the process of making wine), B- Bottling, WT – Wine Tourism, LW – Leased Winery, \*acquired

The Company has three bottling plants, two in Maharashtra and one in Karnataka. In Maharashtra, Domaine Dindori bottles and packages all the wine production done in the state and in Karnataka, Domaine Sula undertakes the same activity, besides production. The past 3-year (FY20-23) average packaging cost is ~9%, which is similar to that of USL but much lower to UBL's 32%.

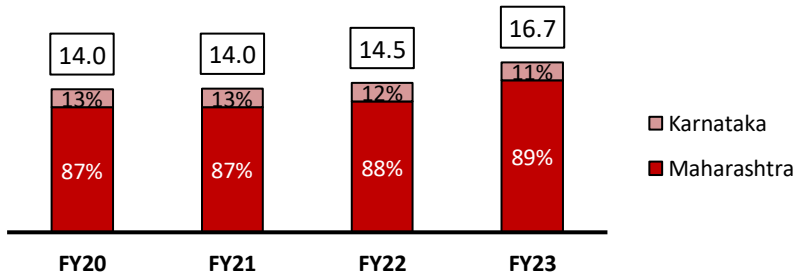
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Leveraging the advantage of proximity in their location footprint, all the wineries have been successful in optimizing operational efficiency. For instance, in Maharashtra, LW1 is only 6km away from Domaine Dindori, while York Winery is a mere 2 km apart. Moreover, Domaine Sula and LW2 have a distance of 750 km between them. Moreover, ~47-48% of inputs are sourced from the same district during the last two years (FY22-23), contributing to the effective exploitation of operational efficiency.



Source: Company, Keynote Capitals Ltd.

Total Installed Capacity at SVL (Mn liters)



Source: Company, Keynote Capitals Ltd.

Maharashtra plays a massive role for SVL, in manufacturing and production dispersion. Remarkably, ~85-86% of total wine (own-brand) sales came from output produced in the boundaries of Maharashtra, with Karnataka contributing ~14-15% between FY20-22.

Furthermore, SVL has built its manufacturing infrastructure on sustainable energy with more than 2MW of installed solar PV capacity providing over 60% of SVL's energy demand. Furthermore, the infrastructure provides a combined water storage capacity of ~37 Mn liters.

Anticipating the surging demand in the forthcoming years, the Company proactively planned a total capital expenditure of Rs. 1.5 Bn for FY23 and FY24. An investment of ~ Rs. 850 Mn incorporated an additional cellar capacity of 6 Mn liters and tankage of ~2 Mn liters in FY23. Further, in FY24, ~ Rs. 600 Mn will be spent towards tank capacity expansion and sustainable energy production. and Given the period between processing and selling wine, which spans between 1.5 to 2 years, this expanded capacity is poised to cater to the demand in FY25-26 effectively.

## SVL | Initiating Coverage Report

SVL has aligned its production with consumer preferences, manufacturing ~85% still wines and ~15% sparkling wines across its six manufacturing facilities, as of Sep'22.

### Distribution

Apart from distributing its own-brands, SVL demonstrates its versatility by engaging in the import and distribution of 21 prestigious international brands under its Third-party distribution business. This impressive portfolio comprises 18 wines, 2 vodkas, and 1 brandy, all positioned in the esteemed Elite category in terms of pricing.

In the third-party business, SVL made a strategic move in 2018 by acquiring ~51% stake in Progressive Alcobev Distributors Pvt Ltd. (PADPL). At the time of acquisition, PADPL was primarily involved in trading beer, IMFL spirits, and other liquors. However, as the business witnessed meager margins of as low as 0.8% in FY20 and 1.5% in FY21, the Company planned to divest its entire position by the conclusion of FY21. This move was driven by the Company's strategic focus on maximizing profitability and optimizing its business portfolio.

Consequently, SVL's own-brands revenue increased from 69% (FY21) to 87% (FY23), driven by a CAGR of 29% and 33% for elite and premium segments, respectively. This growth boosted SVL's margins from 17% (FY21) to 31% (FY23).

In FY22, SVL stood at the forefront with its unparalleled wine distribution network, spanning both own brands and third-party labels. This robust network comprises an impressive array of 50 distributors, 11 corporations, 14 licensed resellers, and 7 company depots. With such extensive coverage, SVL ensures seamless and widespread availability of its products, delivering the finest wines to consumers across the nation.

SVL employs a diverse array of distribution channels, including on-trade, off-trade, and Direct-to-Consumer (D2C). These channels contribute distinctly to the Company's secondary sales, with on-trade accounting for ~23%, off-trade dominating at ~72%, and D2C representing around 4% in FY23.

In terms of on-trade, SVL demonstrates decent penetration, boasting ~9,000 touch points in prominent Hotels, Restaurants, and Caterers (HoReCa) centers.

On the other hand, the off-trade business achieves an impressive reach with 13,500 points of sale. As for the D2C channel, it comprises 2 vineyard resorts and an ecommerce platform as its touch points.

On average, SVL possesses 1.5 times more touch points in both on-trade and off-trade compared to its closest wine peers. Nevertheless, SVL has further growth potential, as its spirits and beer counterparts outpace SVL with 5-7 times more touch points.

Similar to the other two channels, the Direct-to-Consumer (D2C) channel has witnessed impressive growth over the last three years (FY20-23). Within this timeframe, D2C bottle sales escalated from 225,000 to 310,000 bottles, reflecting an 11% CAGR. Additionally, the count of wine tasting sessions rose from ~90,000 to about 130,000, indicating a CAGR of 13%.

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This success is attributed to the burgeoning popularity of wine adoption through ecommerce and the allure of vineyard exploration.

### Consumption

The consumption of Sula wines are concentrated geographically, with a split of 97:3, between India and other countries; 49:15:36 between Maharashtra, Karnataka and other states; and 70:30\* between top 5 cities (Mumbai, Bengaluru, Delhi NCR, Pune, and Hyderabad) and the rest of India.

*\* This is an industry statistics, which we believe must be largely consistent with the Company as it is a market leader with 52% volume share (FY23).*

Regarding the sales mix of own-brands and third party the Company has guided to broadly maintain ~95:5 like in FY23. Confident in its own brands' success and quality, the Company relies less on imported wines. The impressive taste and value for money of its own brands have enabled the Company to secure prestigious on-trade clients like Taj Hotels, a feat previously considered challenging.

Consumers taste leans toward red wine over white, prompting the likelihood of new offerings in the red segment. Still wines make up ~85% of total production, indicating higher consumption than sparkling wines.

SVL's brands maintain a strong market share of 52% in the volume market of unfortified wine. The Company's market share stability is credited to strategic new product launches, including 7 labels under leading brands like "Sula," "The Source," "RASA," and "Dindori" in the elite category between FY18-22. As of FY23, SVL dominates ~61% of the value market in the elite category.

Apart from these brands, SVL owns several other brands as enlisted in the table titled *The brands of Sula*.

Of all the lables, 'Sula Shiraz Cabernet' has been the largest-selling wine in India, contributing ~24% in the own-brands revenue in FY22.

Holistically, the Company grew by 18% in volume and 8% in value in FY23, crossing a million cases. Going forward, the Company anticipates a value growth of a little higher than 15%, with volume growth of ~15%.

To increase consumption and penetration, SVL recently launched a wine-by-the-glass program for institutions and on-trade accounts, yielding positive responses. This initiative provides restaurants a better margin for serving wine by the glass, broadening access to their wines. By implementing a basic wine-by-the-glass offering, featuring white, rosé, and red options, on-trade establishments can notably amplify wine sales – potentially even doubling them in one outlet. This proactive approach has led to acquiring new institutional accounts. Notably, in Q1 FY24, SVL secured exclusive pouring rights with the Olive Group, a significant national deal. Furthermore, an agreement was established with the key lounge operators across international and domestic airports.

Apart from on-trade expansion, the Company penetrates via wine tasting events like Little Free, Mumbai and becoming wine partners at events such as India Art Fair, Delhi. While some events offer free samples, other are charged at nominal cost. Further, music festivals and sports stadiums are also what the Company counts on.

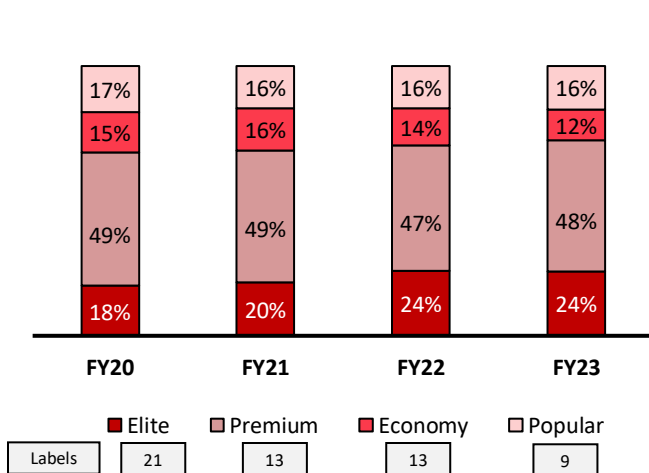
## SVL | Initiating Coverage Report

The brands of Sula

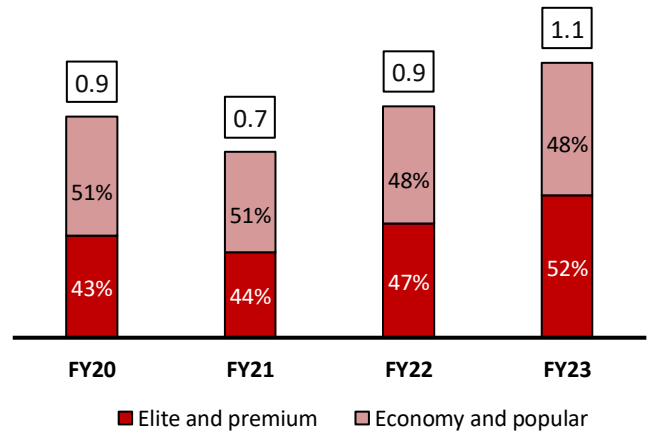
Brand	Labels
<b>Elite (&gt; Rs. 950)</b>	
Sula	Brut, Brut Tropicale, Sparkling Shiraz, Riesling, Late Harvest Chenin Blanc
Dindori	Viognier, Chardonnay, Shiraz
RASA	Syrah, Cabernet Sauvignon, Zinfandel
The Source	Cabernet Sauvignon, Grenache Rosé, Sauvignon Blanc, Moscato, Chenin Blanc Reserve
York	Arros, York Late Harvest Chenin Blanc, H Block Chardonnay, Sparkling Rosé, Sparkling Cuvée
<b>Premium (Rs. 700-950)</b>	
Sula	Shiraz Cabernet, Zinfandel Red, Chenin Blanc, Sauvignon Blanc, Zinfandel Rosé, Seco, Seco Rosé
Satori	Satori
York	York Shiraz, York Cabernet Merlot, York Chenin Blanc, York Sauvignon Blanc, York Rosé
<b>Economy (Rs. 400-700)</b>	
York	All Rounder Red, All Rounder White
Dia	Dia Red, Dia White
Kadu	Cabernet Shiraz, Chenin Blanc, Shiraz Rosé
Port Gold/1000	Port Gold
Madera	Madera Red, Madera White, Madera Rosé
Mosaic	Mosaic Red, Mosaic White
<b>Popular (&lt; Rs. 400)</b>	
York	Manthan Red, Manthan White, G9 Port, G9 Premium Port, White Port
Heritage	Heritage Red
Port Gold/1000	Port 1000
Samara	Samara Red, Samara White

Source: Company, Keynote Capitals Ltd.

Own-brands Gross Revenue Mix (%)



Own-brands Volume Mix (in Mn cases)



Source: Company, Keynote Capitals Ltd.



## SVL | Initiating Coverage Report

### Wine Tourism

In the wine tourism business, SVL offers experience of vineyard tours, boutique resorts, wine tasting, gourmet restaurants and amphitheatre at Nashik and Bangalore facility.

SVL commenced the wine tourism business at their Nashik facility with a wine tasting room in 2005. Later in 2008, they launched India's first vineyard resort and first wine themed music festival "SulaFest" at the same Nashik facility. Further in 2017, wine tasting was introduced in the Bangalore winery as well.

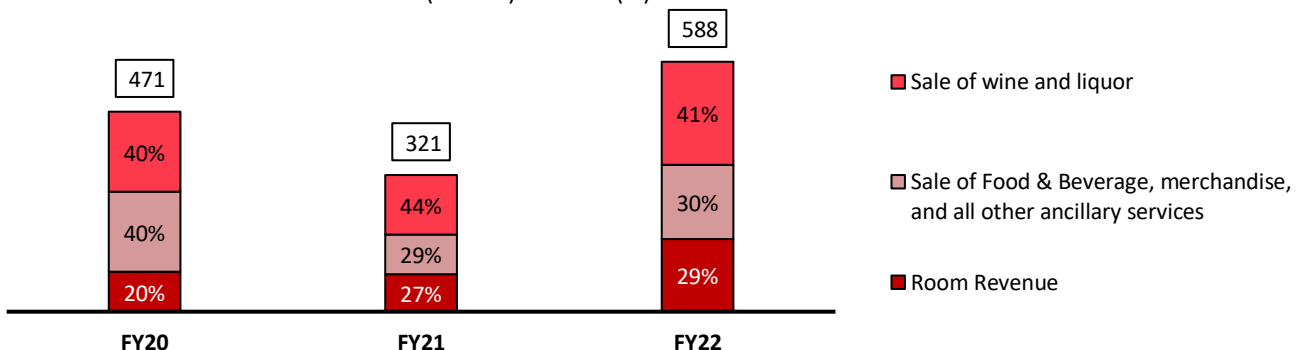
Name	State	Vineyard	Resort	Wine Tasting	Restaurant	Amphitheatre
Domaine Dindori	Maharashtra	No	No	No	No	No
Nashik Winery	Maharashtra	Yes	Yes	Yes	Yes	Yes
Domaine Sula	Karnataka	No	No	Yes	Yes	No
York Winery	Maharashtra	No	No	Yes	Yes	No

Source: Company, Keynote Capitals Ltd.

The boutique resorts located at Nashik –"The Source at Sula" and "Beyond Sula" have capacities of 67 and 10 rooms, respectively. Together, the segment had an average occupancy of 66% and 71% in FY20 and FY22, respectively, increasing their average room revenue from Rs. 8,700 to Rs. 10,400, increasing total room revenue at 35% CAGR between the said years. As a result, the segment's share in wine tourism revenue increased from 20% to 29%. The total wine tourism revenue has grown at ~17% CAGR between FY20-23 from Rs. 280 Mn to Rs. 450 Mn. In order to expand their wine tourism business, the Company has added 27 rooms in Q1 FY24, taking the total number of keys to over 100. Further, SVL plans to capitalize the York Winery targeting younger and price sensitive customers.

In the wine tourism business, the resort segment doesn't require significant capital investment. Local partners in Nashik construct the resorts and lease the property to SVL for 10-15 years. Importantly, the lease agreement doesn't involve any revenue or profit-sharing arrangement with the lessor, making this arrangement highly advantageous for the Company.

Wine Tourism Revenue (Rs. Mn) and Mix (%)



Source: Company, Keynote Capitals Ltd.

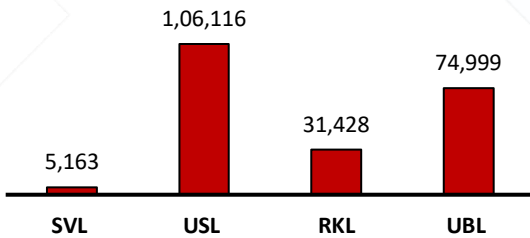
The Company clocked a revenue of Rs. 800 Mn, in FY23, including the sales via the D2C channel, where they sell Elite wines above Rs. 1,100 only, of Rs. 212 Mn (28%) (considered in the wine business) besides the revenue already considered Rs. 588 Mn (72%). The Company expects the total revenue from wine tourism business to increase to Rs. 1,000 Mn in FY24.

## SVL | Initiating Coverage Report

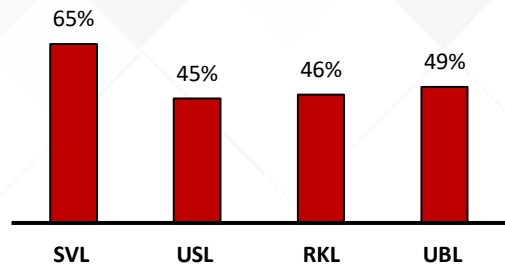
### Peer Analysis between the leaders

Given India consumes spirits (IMFL) and beer almost equally, with a consumption share of 36% and 30%, respectively in CY22E, they become peers of wine with all the potential, overlooking the mass consumption of IMIL with ~33% contribution.

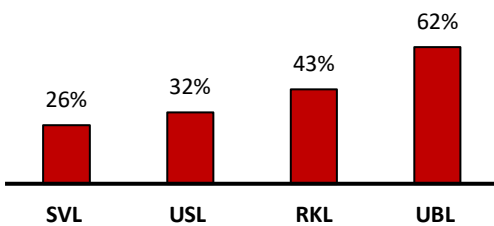
NSV in FY23 (Rs. Mn)



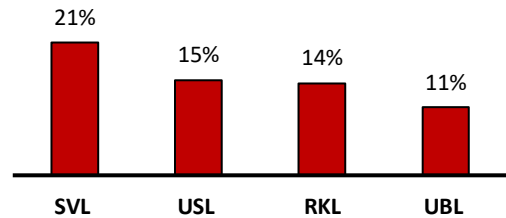
Average Gross Margin (%) (FY20-23)



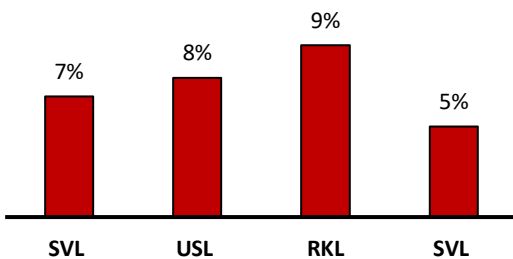
Packaging material as a percentage of COGS (Average of FY20-23)



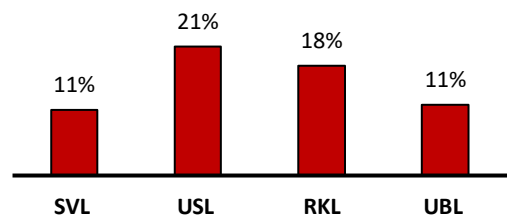
Average EBITDA Margin (%) (FY20-23)



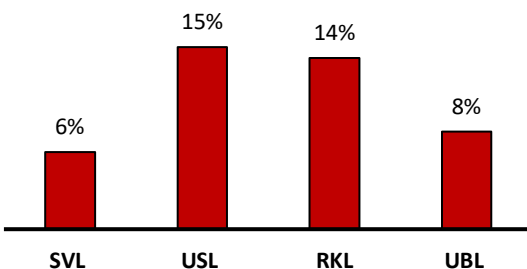
Average PAT Margin (%) (FY20-23)



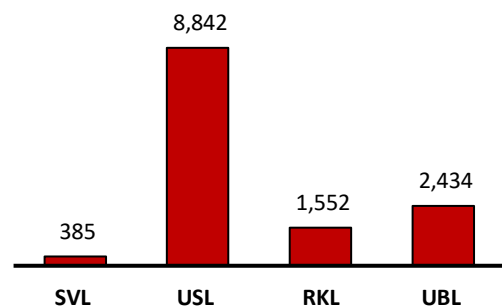
Average ROCE (%) (FY20-23)



Average ROE (%) (FY20-23)

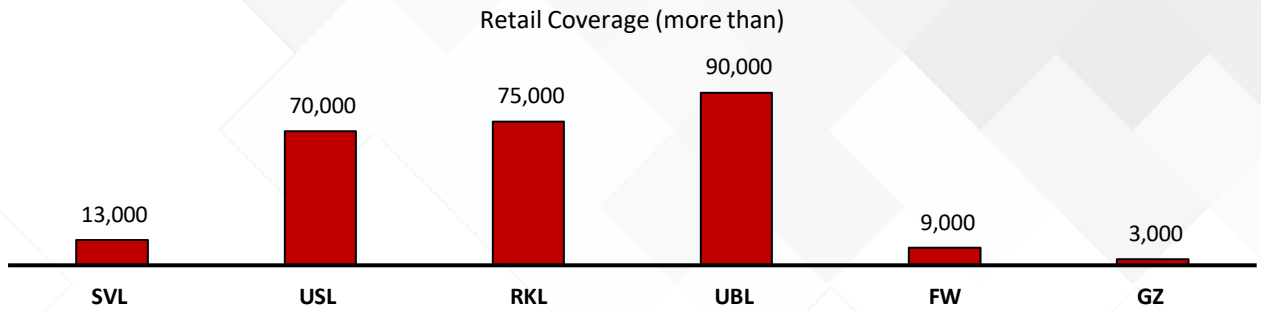


Average FCFE (Rs. Mn) (FY20-23)

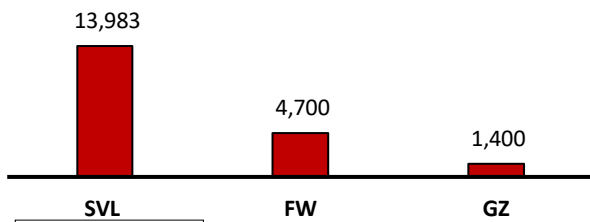


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### Operating Metrics



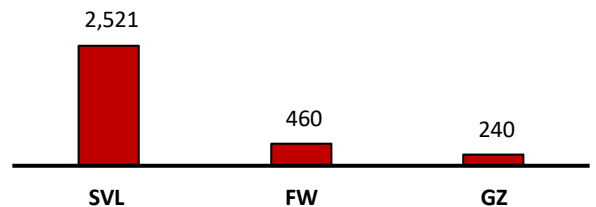
Installed Capacity in FY22  
(in thousand liters)



16.7 Mn in FY23

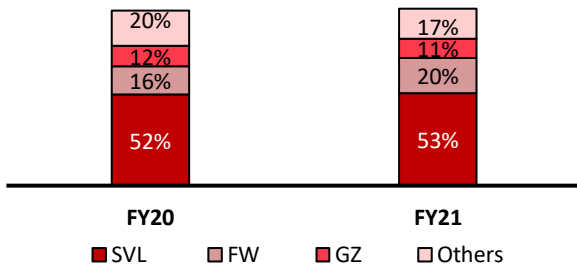
Source: SVL RHPs, Keynote Capitals Ltd.

Area under cultivation in FY22 (in acres)



2,800+ in FY23

Share in Unfortified Wine Market Value (%)



Offerings in Wine Tourism	SVL	FW	GZ
Start of Wine Tourism	2008	NA	NA
Footfall in FY20	3,68,000	NA	NA
Tour	Yes	Yes	Yes
Tasting	Yes	Yes	Yes
Grape Stomping	Yes	No	Yes
Restaurant	Yes	Yes	Yes
Bottle shop	Yes	Yes	Yes
Music Festival	Yes	No	Yes
Hotel/Resort	Yes	Yes	No

Source: SVL RHPs, Keynote Capitals Ltd.

## SVL | Initiating Coverage Report

## Management Analysis

The Management team of SVL consists of industry veterans who bring immense expertise and relevant experience of working with large entities.

Name	Designation	Previous Experience	Experience with SVL (Yrs.)
Rajeev Samant	MD, CEO	NA	24+
Chaitanya Rathi	COO ( <i>Outgoing</i> )	Everstone, Mswipe Technologies	17+
Karan Vasani	COO ( <i>Incoming</i> ) wef 1 <sup>st</sup> Oct'23	Chief Winemaker, SVL	10+
Bittu Varghese	CFO ( <i>Outgoing</i> )	Marico, S.C. Johnson, Hindustan Coca-Cola Beverages and Pernod Ricard India	4+
Abhishek Kapoor	CFO ( <i>Incoming</i> ) wef 28 <sup>th</sup> Aug'23	CFO, Wagh Bakri Tea Group Other roles at Godrej Consumer Products, Pepsi Co., JK Tyres, and HT Media,	NA
Monit Dhavale	Senior VP, Hospitality Business	NA	14

Source: Company, Keynote Capitals Ltd.

## Promoter Holding and Management Compensation

Particulars	FY23
% Promoter Holding (~)	27%
MD's salary (Rs Mn)	40
As a % of PAT (~)	5%

Source: Company, Keynote Capitals Ltd.

## Top Shareholders with more than 2% stake (%)

Stakeholders	FY23
Verlinvest Ltd.	18.6
Mousserena I.P.	3.7
Quant Mutual Fund	3.5
SBI Consumption Opportunities Fund	3.3
Ruta Mohan Samant	2.9
Mukul Mahavir Agrawal	2.4
Goldman Sachs Funds - Goldman Sachs India Equity	2.3

Source: Company, Keynote Capitals Ltd.

## SVL | Initiating Coverage Report

### Opportunities

#### SVL to grow on the back of industry growth

According to the management's projections, the wine industry is poised for substantial growth, with an expected doubling of its current 1% contribution in the beverage alcohol market to ~2% in value terms.

The industry has huge room to grow over the current penetration levels. Presently, wine consumption is concentrated in specific states and cities, particularly Maharashtra and Karnataka, which together accounted for a significant 57% of the wine consumed during FY22. Moreover, about 70% of wine consumers are from urban cities like Mumbai, Bangalore, Delhi, Pune, and Hyderabad as of the same year. Interestingly, there is a noteworthy increase in participation in the drinking group, with around 10 Mn new individuals joining every year. Currently, the per capita consumption of wine in India remains quite low, averaging less than 100 ml per person, compared to total beverage alcohol per capita at 2.7 liters. Given that the contribution of wine to the overall alcohol consumption in India is less than 1%, it is notably lower when compared to the world average, which stands close to 13%. This indicates that there is a considerable opportunity for the wine industry to expand its market share within the country.

The Company 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.

To bolster its position in the market, the Company has been proactively launching elite wines and premium labels, successfully introducing seven labels under the elite segment since 2018, garnering a noteworthy 9% share in its category in FY21.

In terms of marketing strategies, the Company has adopted a social media-focused approach, collaborating with lifestyle and wine influencers to target first-time drinkers, distinguishing their efforts from the traditional veteran whisky drinker market.

Remaining open to acquisitions, the Company has previously executed successful deals like Heritage in 2017 and York in 2022, leveraging inorganic growth opportunities. Emphasizing expansion, the Company is keen on capacity enhancement and increasing its distribution network.

With a strong vision for the future, the Company aims to achieve significant growth within the next 6-7 years, potentially doubling or tripling its current standing in the wine business. The Company aims to solidify its position with a 61% focus on the elite market segment. Furthermore, recognizing the growing significance of wine tourism, the Company is exploring direct-to-consumer (D2C) opportunities, exemplified by initiatives like Sula Fest. By effectively implementing this comprehensive and forward-looking strategy, the company is well-positioned to capitalize on growth opportunities, strengthen its market presence, and expand its influence in the dynamic Indian wine industry.

## SVL | Initiating Coverage Report

### Moat securing SVL's bright prospects

SVL's sourcing strategy involves procuring grapes from a vast network of more than 500 farmers, covering more than 2,800 acres through long-term purchase agreements. This creates a strong bond between the farmers and the Company, ensuring a consistent supply of grapes. Due to this limited-producer market, wineries hold an advantageous position over farmers, and SVL, with its massive acreage (5 times larger than the second biggest player, FW), enjoys an even stronger position, securing the supply and contracts. As a result, the bargaining power of suppliers is generally low for all industry players. However, SVL's large size and production scale, facilitating a one-to-many scenario, give it a slight advantage, reducing the suppliers' bargaining power even further. Moreover, high and sustainable gross margin being an indicator of pricing power, stands in favor of the Company with 5-year average gross margin to be ~60%.

Over the past four years (FY19-23), the Company has consistently increased its prices, averaging ~6% annually across its entire portfolio. This price inflation far exceeds what USL typically receive, which is in the range of 0.5% to 1.5%, as well as most FMCG companies. One of the key factors driving these liberal price hikes by SVL is its significant presence in states like Maharashtra, Karnataka, and Goa, where there is free pricing and no government intervention. This exposure means that SVL has buyers who have comparatively low bargaining power. As a result, the Company enjoys the flexibility to implement more generous price increases and maintain a favorable pricing strategy.

SVL holds a dominant position in the Indian wine industry, being the largest winery with a substantial 52% volume market share in unfortified wines and ~61% share in elite and premium wines value market in FY23. Its procurement, production, and volume sales far surpass those of its closest domestic competitors, namely Fratelli Wines and Grover Zampa.

The wine industry poses significant barriers to entry due to multiple factors. First, there are over 100 regulatory approvals required, making it a complex process for new entrants to navigate. Second, the long gestation period of four years, including two years for grape cultivation and another two years to sell the first wine, demands substantial patience and investment.

Additionally, breaking the long-standing stickiness of farmers with other wineries, which typically lasts for 10-12 years, presents a formidable challenge. Establishing a vineyard involves a commitment of ~12 years, along with the need for trained farmers with a proven track record.

Further, despite welcoming policies for new wine companies in top wine-producing states like Maharashtra and Karnataka, the top three players in country have maintained their dominance, accounting for about 80% of the market as of FY22.

Considering these factors, the threat of new entrants is evaluated to be low.

Further, with the operations of SVL expanding farther and deeper by the year, it is going to become difficult for the peer wineries to tag along as it requires deep pockets of reserves to fund growth and capital expenditure, which is the smaller and unprofitable peers won't be able to do, whereby enabling moat against the competition taller and stronger.

## SVL | Initiating Coverage Report

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### Higher realisation compared to substitutes

In comparison to the leading spirits and beer companies, SVL 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.

It is important to note that most of these advantages stem from the structure of the industry rather than the Company. However, SVL, being a competitive leader in a strongly moated industry positions itself for robust growth and a promising outlook. With its strong moat and favorable industry dynamics, SVL has the potential to maintain its competitive edge and continue to thrive in the market.

## SVL | Initiating Coverage Report

### Challenges

#### Australia-India FTA

In April 2022, the India-Australia Trade Agreement (IAECTA) was signed, aiming to enhance India's access to Australian wines. The agreement entails a reduction in import duties on wines falling within different price ranges. For wines priced between \$5 and \$15 per bottle, the import duty drops from 150% to 100% immediately, followed by a gradual decrease to 50% over a decade. Similarly, wines priced above \$15 per bottle see their import duty decrease from 150% to 75% immediately, with a further reduction to 25% over 10 years. However, the import duty for wines below \$5 per bottle remains unchanged at 150% to prevent unfair pricing practices.

This amendment is anticipated to change the contribution of imported wines in the industry from ~19% volume and 31% value in FY22 in the favor of imported wines. During the same year, India imported ~48% of imported volume and 41% of imported value of wines from Australia.

While SVL argues that the impact of FTA will be on the wines priced above Rs. 3,000, and not at/below ~ Rs.1,500, where SVL operates, the risk of shift in consumer preference to imported wines still hovers.

#### The favours from the government may reverse

The regulations and laws related to the manufacturing, sale, and consumption of alcoholic beverages, particularly wine, are primarily under the control of state governments in India. Each state has its own legislation governing these aspects, and the regulations may vary from one state to another. In Maharashtra and Karnataka, where the Company's manufacturing facilities are located, they are subject to the Maharashtra Prohibition Act, 1949, and the Karnataka Excise Act, 1965, respectively, along with the rules, regulations, and orders made under these acts. Furthermore, the Government of Maharashtra issued an order on December 13, 2021, granting an exemption to wine manufacturers who have valid licenses from paying excise duty for wines produced without the addition of alcohol and blended with imported concentrate or bulk wine. Under the current order, the Company is eligible to pay only Rs. 10 per bulk liter of wine manufactured, instead of the regular excise duty, until December 2026. However, after this period, there is a possibility that the government may increase the excise duty, potentially affecting the Company's profitability.

Other regulatory benefits include:

- Karnataka government levying higher excise duty on wines produced outside the states, in order to promote the production inside the boundaries.
- Karnataka government provides ~50% subsidy on installation of machinery used to process grape wine.
- More waivers and reduction in have been granted in relation to the excise registration fees, license fees, labelling fee on production and sale of wine.

On reversal of these benefits, especially withdrawal of excise duty concessions can impact the profitability of the Company.



## SVL | Initiating Coverage Report

In August 2009, the Maharashtra State Government introduced the Wine Industry Promotion Subsidy to boost wine production within the state. The subsidy is applicable to intra-state sales of wine made from locally produced grapes, without alcohol addition or blending with wine from other vendors. It involves an 80% VAT refund on wine sales within the state.

However, the state industries department's proposal to revive the Wine Industrial Promotion Scheme (WIPS) was met with strong opposition from BJP ministers and was rejected during a cabinet meeting in November 2022. Consequently, the future of Maharashtra's wine policy remains uncertain. Currently, wineries are subjected to a 20% Value-Added Tax (VAT), with 16% being refunded as a rebate under WIPS. Amidst the opposition and overhaul, the management is positive about the renewal of VAT refund policy on the back of new Finance Minister of Maharashtra.

### Intense competition from substitute

The wine industry faces a challenge as it is an underpenetrated category of beverage alcohol compared to its substitutes like beer and spirits, which together have a consumption rate ~380 times greater as of CY22E. Per capita consumption of pure alcohol via beer and spirits is represented by 6.9 liters and 4.8 liters respectively, while wine lags behind with close to 0 liters per capita consumption of pure alcohol as of FY21. Wine's share in the overall alcohol 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.

In order to make the situation more favourable, the management of SVL aims to target teetotalers and novice drinkers to expand their consumer base in the wine industry. However, converting seasoned drinkers of spirits into wine consumers is challenging. The CEO and MD, Rajeev Samant, mentioned in the Q4 FY23 earnings call, *"It's probably a lot easier to convert new drinkers and especially women to wine, not convert, but to introduce them to wine as their first alcohol of choice, rather than consuming, converting an old grizzled whiskey drinker to wine that probably we have to wait for their doctor to recommend to them"*.

Considering these factors, the threat of substitutes for the wine industry is deemed to be very high, making it essential for companies like SVL to strategize and focus on specific consumer segments for sustainable growth.

### Litigations and contingent liabilities

One of the most significant litigations against the Company involves an amount of Rs. 1,158 Mn with the Maharashtra Government. In 2018, Nashik Collector B Radhakrishnan stated that the Company was among the major offenders misinterpreting the grape policy and not paying excise duty on wines sold within the country. Mr. Yatin Patil, the President of the All India Wine Producers Association, explained in 2018 that the notices targeted wineries who were purchasing and blending wine from outside Maharashtra. Although wineries had earlier received concessions on excise duty for wine made from grapes grown in Maharashtra until 2021, bringing in wine from other states or countries required levying excise duty. The excise department initiated inquiries in 2012-2013, and wineries like the Company received notices in 2018.

The following table covers sequence of events related to this case:

Date	Developments
February 17, 2018	The Company received a demand notice from the Collector of Nashik, Maharashtra (State Excise Department), demanding Rs. 1,158.94 Mn as excise duty on wine production. The demand was based on the Maharashtra Manufactured Beer and Wine Rules, 1966, which stipulate excise duty on wine produced from Maharashtra's grapes blended with wine from other states or across the customs frontier or other states.
February 28, 2018	The Company filed a writ petition before the Bombay High Court, seeking the withdrawal of the Demand Notice and a stay on the recovery of the amount.
March 22, 2018	The High Court allowed the withdrawal of their writ petition with liberty to file a fresh petition if the state government's decision is adverse.
March 28, 2018	The Company filed an appeal before the Commissioner of State Excise, Maharashtra State, challenging the Demand Notice.
August 16, 2019	The Commissioner of State Excise dismissed the Company's appeal, asserting that the Demand Notice was issued on their directions.
September 19, 2019	The Minister (State Excise Revenue) granted an interim stay on the recovery of excise duty based on the demand notice and the appeal filed by our Company.
July 31, 2023	Pursuant to the Order, the Minister (State Excise Revenue) vacated the interim stay, which means the Company needs to address the demand notice and the excise duty issue.
August 1, 2023	The Company filed a writ petition before the High Court of Bombay, challenging the Order.
August 5, 2023	The Bombay High Court set aside the order and directed the resolution of the pending revision application within four months.

Source: Company, Keynote Capitals Ltd.

The disputed amount of Rs. 1,158 Mn is not included in the contingent liabilities and constitutes around 20% of the shareholder's fund and 139% of the PAT for FY23. Meanwhile, the contingent liabilities for FY23 amounted to Rs. 210 Mn, which represents ~4% of the shareholder's fund in the same year.

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>4,244</b>	<b>5,163</b>	<b>6,142</b>	<b>7,258</b>	<b>8,580</b>
Growth %	10%	22%	19%	18%	18%
Raw Material Expenses	1,171	1,331	1,597	1,887	2,231
Employee Expenses	653	775	891	1,024	1,178
Other Expenses	1,286	1,482	1,781	2,105	2,488
<b>EBITDA</b>	<b>1,133</b>	<b>1,575</b>	<b>1,873</b>	<b>2,242</b>	<b>2,683</b>
Growth %	86%	39%	19%	20%	20%
Margin%	27%	30%	30%	31%	31%
Depreciation	236	259	293	328	363
<b>EBIT</b>	<b>897</b>	<b>1,316</b>	<b>1,581</b>	<b>1,914</b>	<b>2,320</b>
Growth %	154%	47%	20%	21%	21%
Margin%	21%	25%	26%	26%	27%
Interest Paid	229	211	204	204	204
Other Income & exceptional	28	35	35	35	35
<b>PBT</b>	<b>695</b>	<b>1,140</b>	<b>1,411</b>	<b>1,745</b>	<b>2,151</b>
Tax	174	299	353	436	538
<b>PAT</b>	<b>521</b>	<b>840</b>	<b>1,059</b>	<b>1,309</b>	<b>1,613</b>
Others (Minorities, Associates)	0	0	0	0	0
<b>Net Profit</b>	<b>521</b>	<b>840</b>	<b>1,059</b>	<b>1,309</b>	<b>1,613</b>
Growth %	1587%	61%	26%	24%	23%
Shares (Mn)	15.0	84.2	84.2	84.2	84.2
<b>EPS</b>	<b>6.63</b>	<b>9.98</b>	<b>12.57</b>	<b>15.54</b>	<b>19.16</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	196	338	218	239	394
Current Investments	0	0	0	0	0
Debtors	1,094	1,145	1,413	1,742	2,145
Inventory	1,623	1,789	2,076	2,453	2,900
Short Term Loans & Advances	34	102	102	102	102
Other Current Assets	759	871	871	871	871
Total Current Assets	3,705	4,245	4,679	5,408	6,412
Net Block & CWIP	3,622	4,151	4,559	4,931	5,268
Long Term Investments	0	0	0	0	0
Other Non-current Assets	258	418	389	360	332
<b>Total Assets</b>	<b>7,586</b>	<b>8,814</b>	<b>9,627</b>	<b>10,699</b>	<b>12,012</b>
Creditors	674	820	999	1,155	1,339
Provision	42	48	48	48	48
Short Term Borrowings	1,468	897	897	897	897
Other Current Liabilities	717	945	945	945	945
Total Current Liabilities	2,901	2,711	2,889	3,045	3,229
Long Term Debt	481	543	543	543	543
Deferred Tax Liabilities	169	182	182	182	182
Other Long-Term Liabilities	82	58	58	58	58
Total Non-Current Liabilities	732	782	782	782	782
Paid-up Capital	157	169	169	169	169
Reserves & Surplus	3,795	5,152	5,787	6,703	7,832
Shareholders' Equity	3,953	5,320	5,956	6,872	8,001
Non-Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>7,586</b>	<b>8,814</b>	<b>9,627</b>	<b>10,699</b>	<b>12,012</b>

### Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	695	1,140	1,411	1,745	2,151
Adjustments	503	462	462	497	532
Change in Working Capital	-157	-441	-377	-550	-666
Total Tax Paid	-167	-278	-353	-436	-538
<b>Cash flow from operating Activities</b>	<b>874</b>	<b>883</b>	<b>1,144</b>	<b>1,255</b>	<b>1,479</b>
Net Capital Expenditure	-459	-689	-700	-700	-700
Change in investments	30	-65	0	0	0
Other investing activities	-139	27	64	64	64
<b>Cash flow from investing activities</b>	<b>-568</b>	<b>-727</b>	<b>-636</b>	<b>-636</b>	<b>-636</b>
Equity raised / (repaid)	561.08	963.24	0	0	0
Debt raised / (repaid)	-723	-372	0	0	0
Dividend (incl. tax)	-194	-454	-423	-393	-484
Other financing activities	-256	-231	-204	-204	-204
<b>Cash flow from financing activities</b>	<b>-613</b>	<b>-94</b>	<b>-628</b>	<b>-597</b>	<b>-688</b>
<b>Net Change in cash</b>	<b>-306</b>	<b>62</b>	<b>-120</b>	<b>22</b>	<b>155</b>

### Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share Data</b>					
EPS	7	10	13	16	19
Growth %	1886%	50%	26%	24%	23%
Book Value Per Share	264	63	71	82	95
<b>Return Ratios</b>					
Return on Assets (%)	7%	10%	11%	13%	14%
Return on Equity (%)	15%	18%	19%	20%	22%
Return on Capital Employed (%)	12%	17%	18%	19%	20%
<b>Turnover Ratios</b>					
Asset Turnover (x)	0.6	0.6	0.7	0.7	0.8
Sales / Gross Block (x)	1.0	1.0	1.0	1.1	1.2
Working Capital / Sales (x)	16%	23%	27%	29%	32%
Receivable Days	100	79	76	79	83
Inventory Days	477	468	442	438	438
Payable Days	169	182	176	174	170
Working Capital Days	408	365	341	344	351
<b>Liquidity Ratios</b>					
Current Ratio (x)	1.3	1.6	1.6	1.8	2.0
Interest Coverage Ratio (x)	4.0	6.4	7.9	9.5	11.5
Total Debt to Equity	0.6	0.3	0.2	0.2	0.2
Net Debt to Equity	0.5	0.2	0.2	0.2	0.1
<b>Valuation</b>					
PE (x)	NA	52.3	41.5	33.6	27.2
Earnings Yield (%)	NA	2%	2%	3%	4%
Price to Sales (x)	NA	8.5	7.2	6.1	5.1
Price to Book (x)	NA	8.3	7.4	6.4	5.5
EV/EBITDA (x)	NA	29.3	24.6	20.6	17.2
EV/Sales (x)	NA	8.9	7.5	6.4	5.4

Source: Company, Keynote Capitals Ltd. Estimates, NA: not available as the company was not listed

## SVL | Initiating Coverage Report

## SVL's Valuation

Valuation	
Expected (in Rs. Mn , otherwise stated)	FY24E
EBITDA	1,873
EV/EBITDA	27
EV	50,571
Net Debt	1,222
Market Capitalization	49,349
No. of shares outstanding	84
Target Price	587
Current Market Price	489
% Upside/(Downside)	~20%

Source: Company, Keynote Capitals Ltd. estimates

SVL has been compounding net sales at 6%, operating profit at 27%, and PAT at 47%, and shareholders' fund at 11% for the past 5 years between FY18-23, showcasing moderate growth in the wine industry and operating efficiency in the cost management.

We believe that the Company's wine consumption will gradually expand by growing volume at 15% and price at 4% in FY24, continuing to be the market leader. Further, going by the way of relative valuation and discounting 25% the 10-year median EV/EBITDA multiple of USL, we ascribe 27 times EV/EBITDA multiple at FY24E EBITDA, giving a targeting price of Rs. 587, implying an upside of ~20%.

## SVL | Initiating Coverage Report

### Our Recent Reports

**Metropolis Healthcare Ltd. | Initiating Coverage Report**

**Metropolis Healthcare Ltd**  
18<sup>th</sup> July 2023

The ubiquitous focus will foster future growth

**BUY**  
CMP ₹1,545  
Target Price: ₹2,000 (+30%)

**Key Highlights:** Metropolis Healthcare Ltd. (MHL) is a leading manufacturer of diagnostic imaging products based in India. The company has a dominant position in the diagnostic imaging market, contributing 70% and 100% of its revenue to PEG, respectively. With an investment of ₹700 crore, MHL is expanding its product portfolio and strengthening its presence in the diagnostic imaging market. The company is also expanding its product portfolio to include diagnostic and imaging products, including advanced diagnostic, with various capabilities such as MRI, CT, PET, and PET-CT. The company is also expanding its product portfolio to include diagnostic and imaging products, including advanced diagnostic, with various capabilities such as MRI, CT, PET, and PET-CT.

**Havells India Ltd | Initiating Coverage Report**

**Havells India Ltd**  
5<sup>th</sup> July 2023

Organic and inorganic catalysts to propel future growth

**BUY**  
CMP ₹1,287  
Target Price: ₹1,552 (+20%)

**Key Highlights:** Havells India Ltd. (HIL) is a leading consumer electrical and appliance company, which offers various products such as ventilators, N95s, A/Cs, and other products. The company has a strong presence in the consumer electrical and appliance market. The company is also expanding its product portfolio to include diagnostic and imaging products, including advanced diagnostic, with various capabilities such as MRI, CT, PET, and PET-CT.

**PB Fintech Ltd | Initiating Coverage Report**

**PB Fintech Ltd**  
20<sup>th</sup> June 2023

Profitability, just around the corner

**BUY**  
CMP ₹1,102  
Target Price: ₹1,700 (+55%)

**Key Highlights:** PB Fintech is a leading online platform for insurance and banking products in India. The company operates Profitability, which is India's largest online insurance platform. The company has a strong presence in the insurance and banking market. The company is also expanding its product portfolio to include diagnostic and imaging products, including advanced diagnostic, with various capabilities such as MRI, CT, PET, and PET-CT.

### Metropolis Healthcare Ltd.

### Havells India Ltd.

### PB Fintech Ltd.

## Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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## SVL | Initiating Coverage Report

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