

Sula Vineyards Ltd.

Leading a small market with higher growth

Sula Vineyards Ltd. (SVL) registered a growth in total gross revenue of ~12%, with own brands growing at 12%, and wine tourism increasing at ~27% on a YoY basis. Within own brands, elite and premium's volume and value grew by ~13% and ~15%, respectively, on a YoY basis. As a result, the category's contribution increased from ~72% in Q2 FY23 to ~74% in Q2 FY24 on a YoY basis. In wine tourism business, the number of tastings increased to ~50,000 with a growth of ~43% on a YoY basis. The overall operating profit increased by ~18% on a YoY basis, with an improvement in EBITDA margin of ~200 bps to ~33%.

Strong performance to sustain ahead

The Company recorded a growth of ~12% in overall value and ~3% in overall volume, with the Elite and Premium segment recording value growth of ~15% and volume growth of ~13% on a YoY basis. The contribution of Elite and Premium in the value of their own brands rose from ~72% to ~74%, while in terms of volume, it increased from ~50% to ~55% on a YoY basis. The management anticipates the growth momentum on similar lines in H2 FY24.

Internal tweaks for improved performance

The Company has decided to exit their leased plant in Karnataka. This has been decided as the Company wasn't satisfied with the operations and manufacturing of Elite and Premium wines. The Company has planned to expand the capacity of its own-plant in Karnataka by replacing the leased capacity (~6 lakh liter). Further, the management has designed to expand the cellar capacity of the Dindori plant by ~3.6 lakh litres (~2-3% of total capacity). The management has also planned to increase dependence on solar energy to 70% by 2026 from ~50% presently. As a result, the Company's capex for FY24 is ~18% higher at ~ Rs. 650 Mn on a YoY basis. As part of its growth strategy, the Company has begun to enter into tier 1 cities with a new sales force.

View & Valuation

Owing to the strong fundamentals and sustainable growth prospects, we revise our estimates and maintain a BUY rating on SVL. Further, we ascribe an EV/EBITDA multiple of 25x on FY25E EBITDA, suggesting an upside of ~27%.

15th November 2023

BUY

CMP:488

TARGET Rs. 620 (27%)

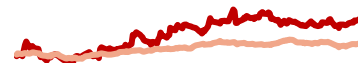
Company Data

Bloomberg Code	SULA IN
MCAP (Rs. Mn)	40,922
O/S Shares (Mn)	84
52w High/Low	535/306
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	300

Shareholding Pattern %

	Sep-23	Jun-23	Mar-23
Promoters	26.27	27.27	27.33
FII's	20.61	6.78	5.86
DII's	17.52	10.23	11.76
Non-Institutional	35.59	55.72	55.06

SVL vs Nifty



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

Source: Keynote Capitals Ltd.

Key Financial Data

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

Source: Company, Keynote Capitals Ltd.

Devin Joshi, Research Analyst
Devin@keynoteindia.net

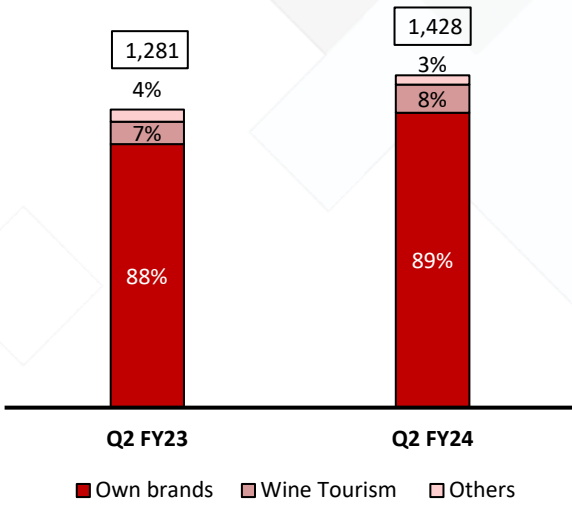
Q2 FY24 Result Update

Result Highlights (Rs. Mn)

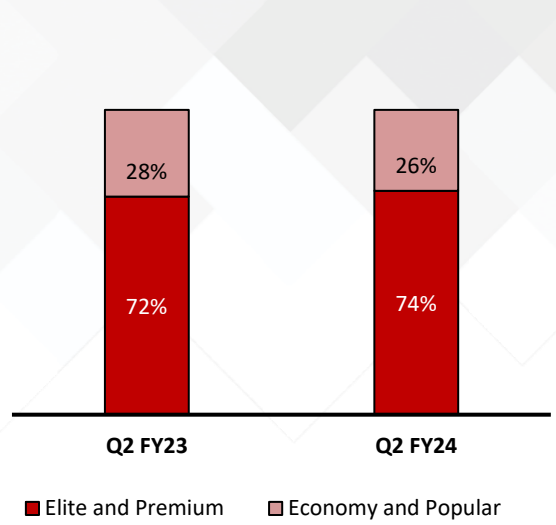
Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Net Sales	1,337	1,203	11%	1,085	23%	2,422	2,125	14%	5,163
COGS	292	283	3%	229	28%	521	487	7%	1,331
Gross Profit	1,045	921	13%	856	22%	1,901	1,638	16%	3,832
Gross Profit %	78%	77%	162 bps	79%	-76 bps	78%	77%	138 bps	74%
Employee Benefit Expense	216	188	15%	213	1%	429	371	16%	775
Selling, Distribution and Marketing Expense	142	145	-1%	128	12%	270	246	10%	553
Other Expenses	244	215	14%	212	15%	456	395	16%	929
EBITDA	442	374	18%	304	46%	746	626	19%	1,575
EBITDA %	33%	31%	201 bps	28%	509 bps	31%	29%	130 bps	31%
Depreciation	76	64	20%	76	1%	152	126	21%	259
EBIT	366	310	18%	228	61%	594	501	19%	1,316
Finance Cost	65	55	19%	53	23%	118	105	13%	211
Other Income	9	8	7%	16	-43%	25	17	46%	35
PBT	310	264	17%	190	63%	500	413	21%	1,140
Tax	79	69	15%	54	47%	132	108	23%	299
PAT	231	195	18%	137	69%	368	305	20%	841
EPS	2.74	2.40	14%	1.62	69%	4.36	3.76	16%	10.18

Source: Company, Keynote Capitals Ltd.

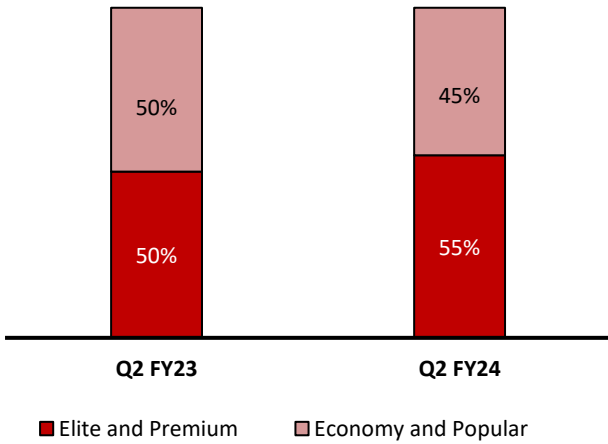
Gross Revenue (Rs. Mn) and Mix (%)



Own Brands Revenue Split (%)



Own-Brands Volume Split (%)



Q2 FY24 Conference Call Takeaways

- SVL has been launching new wines which are not present in its portfolio. During the quarter, the Company launched Source Pinto Noir, which is the first Pinot Noir wine from the house of Sula.
- As part of promoting premiumization in its portfolio, the Company has decided to exit the 6-lakh liter leased capacity in Karnataka and an equivalent capacity at own plant. This decision comes as a result of unsatisfactory operations required to manufacture elite and premium wines. At this facility, the Company has been experiencing ~50% growth rate in wine tourism, which encourages the Company to also offer stay options in the near future.
- The Company plans to increase its dependence of solar energy from ~50% presently to ~70% by 2026.
- SVL has planned an ~18% increase in its annual capex run rate from ~550 Mn to ~ Rs. 650 Mn, which is anticipated to be directed towards cellar capacity expansion (6 lakh liter in Domaine Sula, 3.5 lakh liter in Dindori Maharashtra), solar energy expansion, a land at the Domain Sula facility (Karnataka).
- The wine tourism business is expected to clock over Rs. 900 Mn in FY24. ~50% of the revenue comes from D2C or sale of wine at facility, which is recorded under own-brands section. The remaining 50% revenue is expected to witness significant growth as the number of room keys have increased to over 100, which is an increase of more than 50% over a period of 12-15 months.
- The Canteen Store Department saw a triple digit growth rate over the corresponding period. Owing to other states growing faster than Maharashtra, the contribution of Maharashtra went down from 54% in H1 FY23 to ~48% in H1 FY24.
- The Company's sales team which has been metro-focused, is now expanding into tier 1 cities.
- Customers currently buying Whiksy at Rs. 1,500 price point have the potential to become wine consumers at the Rs. 800 price point. This market is presently at ~2% of the total market, which the management anticipates to increase to ~10%.
- The Maharashtra Wine Industrial Promotion Scheme (WIPS) issue about the VAT refund scheme remains unresolved, but SVL maintains optimism. Notably, other states, particularly the Canteen Stores Department (CSD), have shown significant growth, nearly tripling compared to last year. Consequently, the revenue proportion from Maharashtra, including the WIPS scheme, has steadily decreased, standing at 7.4% in Q2 FY24 compared to 8.9% in the last year. This trend indicates a reduction in both overhangs and associated risks.
- SVL received a demand notice from the Maharashtra excise department, obtained a stay from the High Court, and anticipates a favourable ruling this quarter.
- Anticipating a successful 2024 grape harvest starting in Jan'24, SVL is well-positioned for a strong harvest, ensuring ample supply for their key Elite & Premium wines in FY25.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	4,244	5,163	6,004	6,935	8,011
Growth %	10%	22%	16%	16%	16%
Raw Material Expenses	1,171	1,331	1,561	1,803	2,083
Employee Expenses	653	775	891	1,024	1,178
Other Expenses	1,286	1,482	1,741	2,011	2,323
EBITDA	1,133	1,575	1,811	2,096	2,427
Growth %	86%	39%	15%	16%	16%
Margin%	27%	30%	30%	30%	30%
Depreciation	236	259	293	328	363
EBIT	897	1,316	1,518	1,769	2,064
Growth %	154%	47%	15%	16%	17%
Margin%	21%	25%	25%	26%	26%
Interest Paid	229	211	204	204	204
Other Income & exceptional	28	35	35	35	35
PBT	695	1,140	1,349	1,599	1,895
Tax	174	299	337	400	474
PAT	521	840	1,012	1,200	1,421
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	521	840	1,012	1,200	1,421
Growth %	1587%	61%	20%	19%	18%
Shares (Mn)	15.0	84.2	84.2	84.2	84.2
EPS	6.63	9.98	12.02	14.25	16.88

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	196	338	224	247	375
Current Investments	0	0	0	0	0
Debtors	1,094	1,145	1,381	1,664	2,003
Inventory	1,623	1,789	2,029	2,344	2,708
Short Term Loans & Advances	34	102	102	102	102
Other Current Assets	759	871	871	871	871
Total Current Assets	3,705	4,245	4,608	5,229	6,058
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
Total Assets	7,586	8,814	9,555	10,520	11,658
Creditors	674	820	955	1,080	1,223
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	2,845	2,970	3,114
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	5,759	6,599	7,594
Shareholders' Equity	3,953	5,320	5,928	6,767	7,762
Non-Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	7,586	8,814	9,555	10,520	11,658

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	695	1,140	1,349	1,599	1,895
Adjustments	503	462	462	497	532
Change in Working Capital	-157	-441	-342	-473	-559
Total Tax Paid	-167	-278	-337	-400	-474
Cash flow from operating Activities	874	883	1,132	1,223	1,394
Net Capital Expenditure	-459	-689	-700	-700	-700
Change in investments	30	-65	0	0	0
Other investing activities	-139	27	64	64	64
Cash flow from investing activities	-568	-727	-636	-636	-636
Equity raised / (repaid)	561.08	963.24	0	0	0
Debt raised / (repaid)	-723	-372	0	0	0
Dividend (incl. tax)	-194	-454	-405	-360	-426
Other financing activities	-256	-231	-204	-204	-204
Cash flow from financing activities	-613	-94	-609	-564	-631
Net Change in cash	-306	62	-113	23	127

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	7	10	12	14	17
Growth %		50%	20%	19%	18%
Book Value Per Share	264	63	70	80	92
Return Ratios					
Return on Assets (%)	7%	10%	11%	12%	13%
Return on Equity (%)	15%	18%	18%	19%	20%
Return on Capital Employed (%)	12%	17%	17%	18%	19%
Turnover Ratios					
Asset Turnover (x)	0.6	0.6	0.7	0.7	0.7
Sales / Gross Block (x)	1.0	1.0	1.0	1.1	1.1
Working Capital / Sales (x)	16%	23%	27%	29%	32%
Receivable Days	100	79	77	80	84
Inventory Days	477	468	446	443	443
Payable Days	169	182	180	175	172
Working Capital Days	408	365	343	347	354
Liquidity Ratios					
Current Ratio (x)	1.3	1.6	1.6	1.8	1.9
Interest Coverage Ratio (x)	4.0	6.4	7.6	8.8	10.3
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
Valuation					
PE (x)		48.7	40.4	34.1	28.8
Earnings Yield (%)		2%	2%	3%	3%
Price to Sales (x)		7.9	6.8	5.9	5.1
Price to Book (x)		7.7	6.9	6.1	5.3
EV/EBITDA (x)		27.4	23.8	20.6	17.8
EV/Sales (x)		8.3	7.2	6.2	5.4

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
18 th August 2023	BUY	489	+20%
15 th November 2023	BUY	488	+27%

Source: Company, Keynote Capitals Ltd. estimates

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

Disclosures and Disclaimers

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Keynote Capitals Ltd. (KCL) is a SEBI Registered Research Analyst having registration no. INH000007997. KCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. Details of associate entities of Keynote Capitals Limited are available on the website at <https://www.keynotecapitals.com/associate-entities/>

KCL and its associate Company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the Company(ies) discussed herein or act as an advisor or lender/borrower to such Company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

KCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that KCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Details of pending Enquiry Proceedings of KCL are available on the website at <https://www.keynotecapitals.com/pending-enquiry-proceedings/>

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of KCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from KCL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

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 KCL & its group companies to registration or licensing requirements within such jurisdictions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Specific Disclosure of Interest statement for subjected Scrip in this document:

Financial Interest of Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Any other material conflict of interest at the time of publishing the research report by Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Receipt of compensation by KCL or its Associate Companies from the subject Company covered for in the last twelve months; Managing/co-managing public offering of securities in the last twelve months; Receipt of compensation towards Investment banking/merchant banking/brokerage services in the last twelve months; Products or services other than those above in connection with research report in the last twelve months; Compensation or other benefits from the subject Company or third party in connection with the research report in the last twelve months.	NO
Whether covering analyst has served as an officer, director or employee of the subject Company covered	NO
Whether the KCL and its associates has been engaged in market making activity of the Subject Company	NO
Whether the Research Entity [KCL] and its associates; Research Analyst and its Relatives, have actual/beneficial ownership of 1% or more securities of the subject Company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.	NO

SVL | Quarterly Update

The associates of KCL may have:

- Financial interest in the subject Company
- Actual/beneficial ownership of 1% or more securities in the subject Company
- Received compensation/other benefits from the subject Company in the past 12 months
- Other potential conflicts of interests with respect to any recommendation and other related information and opinions.; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- Acted as a manager or co-manager of public offering of securities of the subject Company in past 12 months
- Be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the Company(ies) discussed herein or act as an advisor or lender/borrower to such Company(ies)
- Received compensation from the subject Company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of KCL has not received any compensation or other benefits from third party in connection with the research report.

Above disclosures includes beneficial holdings lying in demat account of KCL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of KCL for other purposes (i.e. holding client securities, collaterals, error trades etc.). KCL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by KCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KCL. The report is based on the facts, figures and information that are believed to be true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KCL will not treat recipients as customers by virtue of their receiving this report

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. KCL, its associates, their directors and the employees may from time to time, effect or have affected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. KCL, its associates, their directors and the employees may from time to time invest in any discretionary PMS/AIF Fund and those respective PMS/AIF Funds may affect or have effected any transaction in for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any Company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of KCL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL to any registration or licensing requirement within such jurisdiction.

SVL | Quarterly Update

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not 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 profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt KCL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold KCL or any of its affiliates or employees responsible for any such misuse and further agrees to hold KCL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

For any complaints email at kcl@keynoteindia.net

General Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.keynotecapitals.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.