

Sula Vineyards Ltd.

Outgrew pressure and increased market dominance

Sula Vineyards Ltd. (SVL) reported a 4% growth in total gross revenue on a YoY basis, with own brands and wine tourism up by ~4% and ~16%, respectively. Elite and premium own brand categories saw volume and value increases of about 3.5% and 7.3%, respectively, on a YoY basis, leading to a rise in their contribution to total revenue from ~74% to ~77% YoY. SVL conducted around 125,000 tastings, a 30% increase from the previous quarter. Its operating profit increased by ~12% on a YoY basis, with the EBITDA margin improving by ~180 bps to ~35%.

Subdued revenue due to a few one-off events

There were a few unfavourable events that took place during the quarter, which led to subdued growth of ~4% in revenue on a YoY basis. Firstly, the most salient market Maharashtra underwent intense competition which led to an increase in Selling and Distribution expense to rise by ~25% on a YoY basis. Subsequent to the competitive scenario, the gross revenue for the state grew by ~15%. However, Goa, another salient state faced licensing challenges for 2 months of the quarter. This resulted in demand degrowth, which is anticipated to recover in the subsequent quarter.

Premiumization making new records with market share gains

During the quarter, Maharashtra, the most salient market of SVL, underwent volume discount wars among the wine players. SVL had been offering discounts in the form cash back, whereas the other players offered volume discounts, like 40 cases additional on the purchase of 100 cases. The management adopted the same strategy, owing to the increase in competition intensity in the Elite and Premium segments. Resultantly, the Company gained market share against peers. During the quarter, SVL recorded a new record with an all-time high share of ~77% revenue from Elite and Premium wines.

Popular and Economy categories witness degrowth in consumption

During the quarter, the total volume grew by ~4.6% on a YoY basis, while the upper-segment (Elite and Premium) grew by ~3.5% on a YoY basis, but the lower-segment (Popular and Economy) grew at ~6%. While this is an aberration, the volumes for the lower segments have been declining during 9MFY24, when the total volume grew by ~6.6%, and the volume for the upper-end category grew by ~12%, implying a flat to marginal degrowth in the lower-end category. SVL asserts not to pursue this segment owing to the competition intensity and unappealing profitability.

View & Valuation

Owing to the strong fundamentals and sustainable growth prospects, we revise our estimates and change our rating from BUY to REDUCE. Our rationale stems from the belief that the present valuation of SVL already incorporates anticipated future growth. Additionally, the revival of VAT refunds under WIPS has impacted the price action. Nonetheless, the quarterly inclusion of ~Rs. 1.5 Bn in trade receivables accounts for the refund amount. Consequently, we ascribe an EV/EBITDA multiple of 25x on FY25E EBITDA, indicating a potential downside of ~4%.

15th February 2024

REDUCE

CMP: 595

TARGET Rs. 570 (-4%)

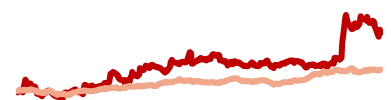
Company Data

Bloomberg Code	SULA IN
MCAP (Rs. Mn)	49,980
O/S Shares (Mn)	84
52w High/Low	700/327
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	667

Shareholding Pattern %

	Dec-23	Sep-23	Jun-23
Promoters	26.27	26.27	27.27
FIIIs	19.69	20.61	6.78
DIIIs	19.56	17.52	10.23
Non-Institutional	34.48	35.59	55.72

SVL vs Nifty



Feb, 23 Aug, 23 Feb, 24
— SVL — NIFTY

Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
Revenue	5	6	6
EBITDA	2	2	2
Net Profit	1	1	1
Total Assets	9	9	10
ROCE (%)	17%	18%	17%
ROE (%)	18%	17%	16%

Source: Company, Keynote Capitals Ltd.

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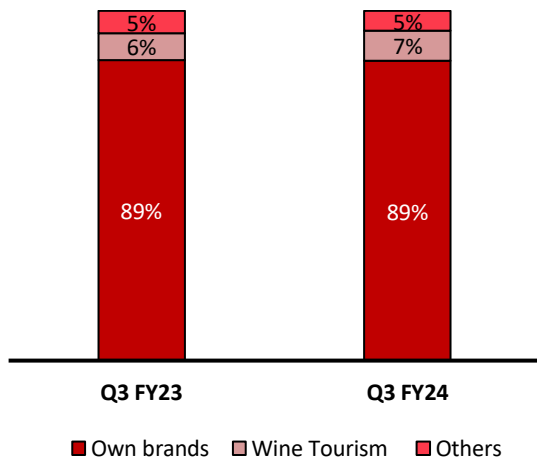
Q3 FY24 Result Update

Result Highlights (Rs. Mn)

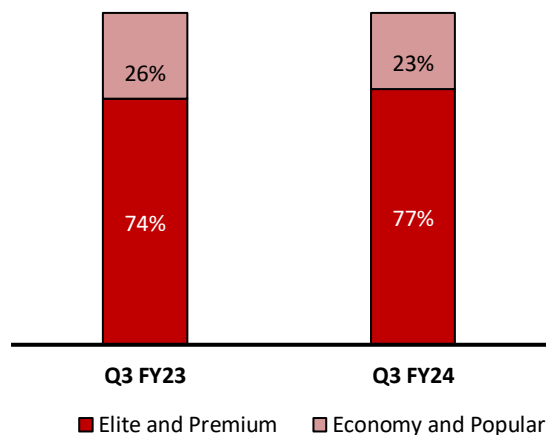
Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Net Revenue	2,030	1,906	7%	1,337	52%	4,452	4,031	10%	5,163
COGS	572	607	-6%	292	96%	1,094	1,094	0%	1,331
Gross Profit	1,458	1,300	12%	1,045	40%	3,359	2,938	14%	3,832
Gross Profit %	72%	68%	364 Bps	78%	-632 bps	75%	73%	257 Bps	74%
Employee Benefit Expense	225	201	12%	216	4%	654	572	14%	775
Selling & Distribution Expense	265	181	46%	142	86%	535	427	25%	553
Other Expenses	249	277	-10%	244	2%	706	672	5%	929
EBITDA	719	640	12%	442	63%	1,464	1,267	16%	1,575
EBITDA %	35%	34%	180 Bps	33%	233 bps	33%	31%	147 Bps	31%
Depreciation	81	65	25%	76	7%	233	191	22%	259
Finance Cost	81	58	40%	65	24%	199	163	23%	211
Other Income	14	9	57%	9	57%	39	26	50%	35
PBT	571	526	8%	310	84%	1,071	939	14%	1,140
Tax	141	134	5%	79	79%	273	241	13%	299
PAT	430	393	9%	231	86%	798	698	14%	841
EPS	5.1	4.7		2.7		9.5	8.5		10.2

Source: Company, Keynote Capitals Ltd.

Gross Revenue Mix (%)



Own Brands Revenue Split (%)



Source: Company, Keynote Capitals Ltd.

Q3 FY24 Conference Call Takeaways

- Maharashtra, the most salient market underwent high competition intensity which resulted in SVL offering free additional volumes on purchase of certain volume. This resulted in gross revenue for the state to grow by ~15% on a YoY basis and Selling and Distribution expenses for the Company increasing by ~25% on a YoY basis. Going forward, the management anticipates the expense to taper down.
- Another salient market, Goa, underwent licensing challenges for retailers, which degrew the demand for the first 2 months during the quarter. The management anticipates strong demand recovery owing to the reinstatement of the stability in the state.
- The price component in the revenue, which is subject to price hikes, is anticipated at ~4-5% from the 60% market (Maharashtra and Karnataka), whereas the other states that don't operate on the free-pricing mechanism benefit from a ~10% hike in 4-5 years, growing at an average of ~2-3% hike for every year.
- The management anticipates revenue recovery from the next quarter, with Q4 performing better than the traditional peak Q3 and grow at a double-digit growth rate, following the trend of previous 7-8 quarters.
- In line with the alcobev industry, the Company's on-trade segment is growing at a higher rate compared to the overall revenue.
- Maharashtra has been performing strongly, excluding Mumbai, especially the country's highest per capita consumption area – South Mumbai.
- The Company launched can variants for Sula Chenin Blanc, the top-selling white wine in India; Rose Zinn, leading in India's rosé segment; and Red Zin, abbreviated for Zinfandel cans.
- The Company increased its dependence on renewable energy from ~50% in the previous quarter to ~60% during the quarter and plans to increase it up to ~70% by FY25, from the earlier target of 2026.
- The VAT refund of ~Rs. 1.5 Bn under the Wine Industrial Promotion Scheme (WIPS) had been added to the trade receivables on a quarterly basis.
- The business from the imported wine fell from ~ Rs. 150 Mn to ~ Rs. 90 Mn on a YoY basis.
- The exports have been limited to ~2-3% and imported business to ~4% as it is not so profitable.
- Tier 2 cities in Punjab and Uttar Pradesh are showing good trends of wine consumption.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23E	FY24E	FY25E	FY26E
Net Sales	4,244	5,163	5,757	6,460	7,410
Growth %	10%	22%	12%	12%	15%
Raw Material Expenses	1,171	1,331	1,439	1,679	1,926
Employee Expenses	653	775	864	969	1,111
Other Expenses	1,286	1,482	1,612	1,809	2,075
EBITDA	1,133	1,575	1,842	2,002	2,297
Growth %	86%	39%	17%	9%	15%
Margin%	27%	30%	32%	31%	31%
Depreciation	236	259	304	328	363
EBIT	897	1,316	1,538	1,675	1,934
Growth %	154%	47%	17%	9%	15%
Margin%	21%	25%	27%	26%	26%
Interest Paid	229	211	286	292	292
Other Income & exceptional	28	35	40	40	40
PBT	695	1,140	1,292	1,422	1,682
Tax	174	299	323	356	420
PAT	521	840	969	1,067	1,261
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	521	840	969	1,067	1,261
Growth %	1587%	61%	15%	10%	18%
Shares (Mn)	15.0	84.2	84.2	84.2	84.2
EPS	6.63	9.98	11.51	12.67	14.98

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23E	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	196	338	277	351	410
Current Investments	0	0	0	0	0
Debtors	1,094	1,145	1,324	1,550	1,852
Inventory	1,623	1,789	1,871	2,183	2,504
Short Term Loans & Advances	34	102	102	102	102
Other Current Assets	759	871	871	871	871
Total Current Assets	3,705	4,245	4,445	5,058	5,740
Net Block & CWIP	3,622	4,151	4,547	4,919	5,257
Long Term Investments	0	0	0	0	0
Other Non-current Assets	258	418	389	360	332
Total Assets	7,586	8,814	9,381	10,337	11,328
Creditors	674	820	807	1,016	1,124
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	2,697	2,906	3,014
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	5,734	6,480	7,363
Shareholders' Equity	3,953	5,320	5,902	6,649	7,532
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	7,586	8,814	9,381	10,337	11,328

Source: Company, Keynote Capitals Ltd. estimates

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%
15 th February 2024	REDUCE	595	-4%

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23E	FY24E	FY25E	FY26E
Pre-tax profit	695	1,140	1,292	1,422	1,682
Adjustments	503	462	550	580	615
Change in Working Capital	-157	-441	-275	-329	-515
Total Tax Paid	-167	-278	-323	-356	-420
Cash flow from operating Activities	874	883	1,244	1,318	1,361
Net Capital Expenditure	-459	-689	-700	-700	-700
Change in investments	30	-65	0	0	0
Other investing activities	-139	27	69	69	69
Cash flow from investing activities	-568	-727	-631	-631	-631
Equity raised / (repaid)	561.08	963.24	0	0	0
Debt raised / (repaid)	-723	-372	0	0	0
Dividend (incl. tax)	-194	-454	-388	-320	-378
Other financing activities	-256	-231	-286	-292	-292
Cash flow from financing activities	-613	-94	-673	-612	-671
Net Change in cash	-306	62	-61	74	59

Valuation Ratios

	FY22	FY23E	FY24E	FY25E	FY26E
Per Share Data					
EPS	7	10	12	13	15
Growth %	1886%	50%	15%	10%	18%
Book Value Per Share	264	63	70	79	89
Return Ratios					
Return on Assets (%)	7%	10%	11%	11%	12%
Return on Equity (%)	15%	18%	17%	17%	18%
Return on Capital Employed (%)	12%	17%	18%	18%	18%
Turnover Ratios					
Asset Turnover (x)	0.6	0.6	0.6	0.7	0.7
Sales / Gross Block (x)	1.0	1.0	1.0	1.0	1.0
Working Capital / Sales (x)	16%	23%	29%	30%	33%
Receivable Days	100	79	78	81	84
Inventory Days	477	468	464	441	444
Payable Days	169	182	195	167	174
Working Capital Days	408	365	347	355	354
Liquidity Ratios					
Current Ratio (x)	1.3	1.6	1.6	1.7	1.9
Interest Coverage Ratio (x)	4.0	6.4	5.5	5.9	6.8
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)		60.1	52.1	47.4	40.0
Earnings Yield (%)		2%	2%	2%	2%
Price to Sales (x)		9.8	8.8	7.9	6.9
Price to Book (x)		9.5	8.6	7.6	6.7
EV/EBITDA (x)		33.9	28.9	26.6	23.2
EV/Sales (x)		10.3	9.3	8.3	7.2

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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