

12th August 2024

CMP – ₹487/-

View – Accumulate

Q1FY25: Performance

- Gross revenue from operations grew 10% YoY to ₹128crs, reporting the highest ever quarterly revenue. Revenue from Elite & Premium wines grew 9% YoY with a decline in volume growth of 7.4% YoY
- Own brands revenue (incl. WIPS benefit) grew 12.7% YoY to ₹115crs. Wine tourism declined by 2.3% YoY to ₹11.3crs. Economy and Popular Revenue grew 24.4% YoY to 33.2crs aided by the recently appointed super distributor in Maharashtra.
- The contribution of elite and premium wines to total revenue (owned brands) stood at 71% in Q1FY25
- Weak state mix (high growth in non-MH and KA states), and product mix (decline in elite and premium wines' salience), high S&M expenses (up 34% YoY) and some increase in operating expenses due to the start of bottling operations in ND winery has affected profitability
- EBITDA grew 10% YoY to ₹35.2crs and the margin expanded to 27.2% (14 bps) YoY. PAT grew 7% YoY to ₹14.6crs and the margin contracted 32bps to 11.3% YoY.

Important Statistics

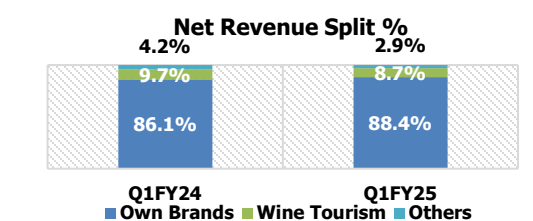
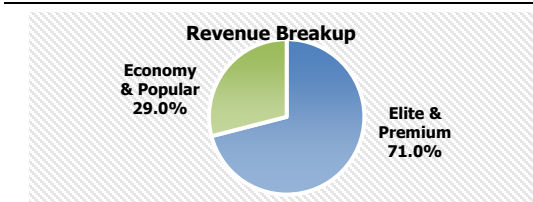
Nifty	24,368
Sensex	79,706
M.CAP (₹ Cr)	₹4,114
52 Week H/L (₹)	₹700/447
NSE Code	SULA
BSE Code	543711
Bloomberg Code	SULA:IN

Shareholding pattern (%)	Jun'24
Promoter	25.47
FII	12.03
DII	22.23
Public & Others	40.26

Key takeaways from Q1FY25 result

- The performance of the Elite and premium segment was impacted by election restrictions and heatwaves. Elite and premium wines revenue grew 8.6% YoY and volume declined 7.4% YoY
- Own brands' performance (excluding WIPS unwinding benefit of ₹10crs) was muted, with volume/value yoy growth of -0.9%/2.7%, as offtakes were impacted by heatwaves and election-led restrictions
- The wine tourism business was impacted significantly by external factors like restrictions on AlcoBev due to the election and scorching heatwave and local infrastructure issues. However, it is witnessing a good uptick in occupancies in July and August. Sula is expanding 'wine tourism facilities at 'Domaine Sula' near Bangalore as it intends to expand its room capacity by 30% with the launch of a new resort in the York winery by next year
- Gross Margin during the quarter was 76%, expanded ~254 bps YoY. EBITDA grew 10% YoY to ₹35.2crs and the margin expanded to 27.2% (14bps) YoY. PAT grew 7% YoY to ₹14.6crs and margin contracted 32bps to 11.3% YoY.
- Despite gross margin expansion, EBITDA declined due to higher employees and other expenses. Employee costs/other expenses/selling and distribution expenses increased 11%/8%/34% YoY to ₹24crs/₹23crs/₹17crs due to increased market spending to drive growth beyond major markets of Maharashtra and Karnataka
- Sula has experienced a one-time bank custodian fee of ₹40lakhs
- It has wide portfolio of 68 labels across 14 brands (Elite:21, Premium :14, Economy: 10, Popular: 6 and Import: 17)
- Sula witnessed strong traction in the non-traditional wine markets outside of core markets (Maharashtra and Karnataka). CSD channel showed robust growth of 50% YoY. Good monsoon augurs well for the upcoming harvest season. Sula's elite range, "The Source" witnessed strong growth of ~20%
- The Pune's Porsche incident resulted in the closure of pubs and this affected the Sula However, Management noticed these external challenges have gradually softened in the current quarter, resulting in some uptick in offtakes during July.

Q1FY25



Source: Company, Way2Wealth Research

Relative Performance

Absolute Return (%)	1Yr	3Yr	5Yr
SULA	-1	57	NA
Nifty 50	26	48	121
Sensex	22	44	114

Source: Company, Way2Wealth Research

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- The current capacity utilization stands at 85-86%, closer to their peak utilization levels (87-88%). As a result, Sula is undertaking a capacity expansion of 2.5mn liters, of which 1.5mn liter capacity will be delivered under the first phase by Jan'25.
- WIPS outstanding as of Jun'24 stood at ₹94crs (₹73crs as of March end + ₹21crs accrued in 1Q). Sula further received ₹10crs in July, taking the outstanding to ₹84crs.
- Sula has acquired N.D. Wines in Apr'24 for ₹13crs. ND Wines is now a part of Sula and the site has tremendous wine tourism potential and work is about to begin on expanding the current 120sq ft bottle shop to a 3,600 sq ft wine tourism destination less than 50 km from the Gujarat border. It has commenced dispatching from a new bottling unit from York Winery in May and from ND Winery in July. The opening of these new bottling units will aid Sula to better capture VAT refunds from next year.
- The company continues to look forward to delivering strong double-digit volume growth as the company's focus will be on driving volume growth through the premium segment and expanding market reach.

Risks

- Inflation in raw material prices
- Any adverse outcome related to excise duty payment could have a material impact on Sula's financials

View

The company is well placed to leverage the global consumer shift towards the low-alcohol beverage segment with strong backend capabilities and a pan-Indian distribution network. Sula has been a consistent market leader in the Indian wine industry in terms of sales volume and value since FY09 crossing ~50% market share by value in the domestic 100% grapes wine market.

The management is confident of delivering positive results going forward, driven by premiumisation, focusing on its own brands and marketing and digitization expansion also the good harvest this year, the ongoing boom in domestic wine tourism, and more consumers choosing premium Indian wines, these trends bode well for the future.

We continue to believe in the company's long-term growth prospects. **At its CMP of ₹487/-, the stock trades at ~44.2 its FY24 earnings of ₹11 and recommend investors to Accumulate the stock.**

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Quarterly Performance

(₹ Cr)

Particulars	Q1FY25	Q1FY24	VAR	Q4FY24	VAR	FY24
Gross Sales	128.44	116.59	10.2%	131.7	-2.5%	608.66
Excise duty on Sales	7.51	8.1	-7.3%	9.16		40.9
Net Sales (Net of Excise Duty)	120.93	108.49	11.5%	122.54	-1.3%	567.76
Other Operating Income	0	0	-	0	-	0
Total Operating Income	120.9	108.5	11.5%	122.5	-1.3%	567.8
Other Income	1.26	1.57	-19.7%	3.65	-65.5%	7.51
TOTAL INCOME	122.2	110.1	11.0%	126.2	-3.2%	575.3
Total Raw Material Cost	23.4	22.9	2.1%	24.5	-4.6%	133.9
Cost of Raw Material & Components Consumed	11.71	10.9	7.4%	88.88	-86.8%	133.85
(Increase)/ Decrease in Inventories	8.65	7.91	9.4%	-67.68	-112.8%	-17.28
Purchase of Traded Goods	3.01	4.09	-26.4%	3.3	-8.8%	17.28
<i>Total Raw Material Cost % to Sales</i>	<i>19.3%</i>	<i>21.1%</i>		<i>20.0%</i>		<i>23.6%</i>
Employee Cost	23.81	21.54	10.5%	21.09	12.9%	86.47
<i>Employee Cost % to Sales</i>	<i>19.7%</i>	<i>19.9%</i>		<i>17.2%</i>		<i>15.2%</i>
Selling & Distribution Expenses	17.12	12.76	34.2%	14.13	21.2%	67.65
<i>Selling & Distribution Expenses % of Sales</i>	<i>14.2%</i>	<i>11.8%</i>	<i>2.4%</i>	<i>11.5%</i>		<i>11.9%</i>
Other Expenses	22.67	20.94	8.3%	33.34	-32.0%	103.92
<i>Other Expenses % of Sales</i>	<i>18.7%</i>	<i>19.3%</i>		<i>27.2%</i>		<i>18.3%</i>
TOTAL EXPENDITURE	87.0	78.1	11.3%	93.1	-6.5%	391.9
EBIDTA	34.0	30.4	11.9%	29.5	15.2%	175.9
<i>EBIDTA Margin %</i>	<i>28.1%</i>	<i>28.0%</i>		<i>24.1%</i>		<i>31.0%</i>
Finance Costs	7.1	5.32	33.5%	6.24	13.8%	26.17
PBDT	28.1	26.6	5.7%	26.9	4.6%	157.2
Depreciation, Amortization & Impairment	8.63	7.56	14.2%	8.35	3.4%	31.63
PBT before Tax	19.5	19.0	2.4%	18.5	-	125.6
Tax	4.86	5.36	-9.3%	5.17	-6.0%	32.47
<i>Tax Rate %</i>	<i>24.9%</i>	<i>28.2%</i>		<i>27.9%</i>		<i>25.9%</i>
Reported Profit before share in profit of joint venture	14.6	13.7	6.9%	13.4	9.4%	93.1
<i>PAT Margin %</i>	<i>12.1%</i>	<i>12.6%</i>	<i>-0.5%</i>	<i>10.9%</i>		<i>16.4%</i>
Other Comprehensive Income (net of tax)	-0.6	-1.4		0.3		-0.66
Total Comprehensive Income	14.1	12.3	14.1%	13.7	2.8%	92.5
EPS	1.73	1.62	6.9%	1.58	9.4%	11.02
Equity	16.9	16.9	0.0%	16.9		16.9
Face Value	2.0	2.0		2.0		2.0

Source: Company, Way2wealth Research

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Disclosure of Interest Statement : Sula Vineyards Ltd (SULA) as on August 12, 2024

Name of the Security	Sula Vineyards Ltd (SULA)
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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Broking relationship with company covered	NIL
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