

**Q2FY25 Performance**

- Gross revenue from operations declined 1.1% YoY to ₹141crs, and volume declined 8% YoY. The temporary disruptions in key states of Karnataka and Delhi further impacted Q2FY25's performance. Revenue from Elite & Premium wines grew 7% YoY with volume growth of 4% YoY while economy and popular was down 18%.
- Own brand revenue was flat ₹127crs (0.4% YoY) impacted by the transitory slowdown in urban consumer demand. Additional impact from temporary disruptions in Karnataka (Excise policy change) and Delhi (Excise portal shutdown in 2nd half of Sep'24).
- Gross Profit was flat YoY and gross margins improved by 78bps led by a favorable product mix. EBITDA declined by 24% YoY mainly due to higher S&D and marketing expenses. EBITDA margin declined 718bps YoY. PAT declined 37% YoY to 14.5crs and PAT margin declined 587bps to 10.2% YoY.
- The contribution of elite and premium wines to total revenue stood at 78% in Q2FY25 vs 74% in Q2FY24.

**Important Statistics**

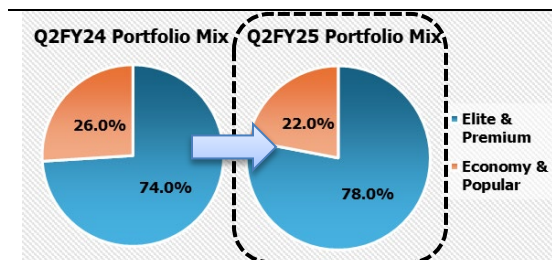
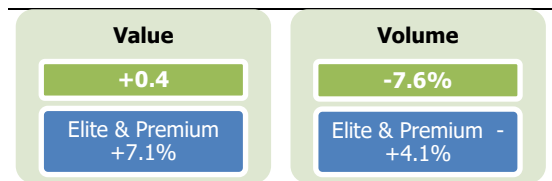
<b>Nifty</b>	23,907
<b>Sensex</b>	79,117
<b>M.CAP (₹ Crs)</b>	~₹3,400
<b>52 Week H/L (₹)</b>	₹700/382
<b>NSE Code</b>	SULA
<b>BSE Code</b>	543711
<b>Bloomberg Code</b>	SULA:IN

<b>Shareholding pattern (%) Sep'24</b>	
Promoter	24.7
FII	10.6
DII	21.7
Public & Others	43.0

**Key takeaways from Q2FY25 result**

- The elite and premium portfolio performed well given the current market backdrop, recording 7% growth, with double-digit gains across some iconic elite brands such as The Source, RASA, and Dindori. Shiraz Cabernet, the Sula Shiraz Cabernet, India's highest-selling wine, also closed the quarter with double-digit growth.
- Revenue excluding our top two states of Maharashtra and Karnataka grew 6% YoY. This growth was powered chiefly by Telangana, with Himachal, MP, Chandigarh, Uttarakhand, and West Bengal, among others, also seeing high double-digit growth. Telangana, the third-largest market Sula, particularly stood out as a bright spot with more than 50% growth in Q2FY25.
- The wine tourism business also faced challenges during the quarter due to deterioration in road infrastructure and a surge in outbound travel. Despite the significant drop in footfalls, spending per head went up considerably, offsetting the impact of lower footfalls. Spends per head grew 9% Y-o-Y. Pan-India tastings are up 6% in Q2FY25 to over 50,000, so an all-time high for Q2FY25. And tastings are extremely important for future growth. So, this is something the company is hopeful about.
- The newly expanded Dindori Tasting Room and Bottle Shop is now open to visitors at the erstwhile ND Wines. This facility is strategically located less than 50 kilometers from the Gujarat border. And the company is hopeful about the success of this new Sula Dindori Bottle Shop and Tasting Room. Furthermore, the ongoing expansion of wine tourism facilities at Domaine Sula near Bangalore is about to be completed in Q3FY25.
- With these expansions, along with the upcoming SulaFest, provide a boost to the wine tourism business and contribute positively to H2FY25's performance. And management is looking to return to healthy growth from Q4FY25, in fact, from December onwards. Management is adding 30 key resorts near York Winery Nashik, expanding total room capacity by 30% from 104 keys to 134 keys.
- Employee costs/other expenses/selling and distribution expenses and finance expenses increased 10%/6%/48% YoY to ₹24crs/₹26crs/21crs/8crs. Total borrowings grew from ₹260crs in Q2FY24 to ₹330crs in Q2FY25.

**Q2FY25**



Source: Company, Way2Wealth Research

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 25<sup>th</sup> November 2024

CMP – ₹396/-

 View – **HOLD**

- Sula has continued to consolidate its position as the market leader in wines nationally.
- Industry is witnessing a temporary slowdown in consumer demand across discretionary categories including alcoholic beverages, particularly within urban India, which represent more than 90% of Sula's customer base.
- The temporary disruptions in the key states of Karnataka and Delhi, further impacted Q2 revenues. In Karnataka, retailers were initially hesitant to stock up due to recent changes in the exercise policy, which introduced pricing uncertainty. This situation has since mostly stabilized after clarity came in from the state authorities, and Sula has started seeing already a recovery in sales there. In Delhi, the excise portal was offline in the second half of September as they migrated from external management to in-house management of the portal, which impacted sales during this transition. At present, Delhi's portal is now mostly back up and running.
- The increase in revenue mix of the cooperation market by 670 basis points from 44% to 50%, driven by accelerated growth in states such as Telangana, West Bengal, and Madhya Pradesh contributed to higher S&D costs.
- The higher utilization of working capital was driven by an increase in receivables. A significant rise in revenue contribution from Telangana, which has a relatively higher DSO, was the primary factor behind the increase in receivables.
- The outstanding WIPS balance, which is the Wine Industry Promotion Scheme, as of 1 April 24, was ₹73crs, with ₹20crs being accrued during H1FY25 and ₹10crs led by the unwinding of the previous accumulated WIPS and subsequently received ₹10crs in July'24, taking the WIPS receivable in balance sheet ₹94crs. Further Sula received a payment of ₹22crs in October, bringing the WIPS balance down to ₹73crs currently. Management remains positive to realize the balance amount in FY25.
- Maharashtra, which is the biggest state for Sula, would have seen some decline due to the infamous Pune Porsche incident, which basically shut down on-trade institutions. Pune has become the number two city in terms of sales in all of India. It was until FY24. So, that was a big hit, and South Mumbai has seen a lot of softness.
- The company continuously looks forward to delivering strong double-digit volume growth as the company's focus will be on driving volume growth through premium segments 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.


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**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.

The upcoming SulaFest, coupled with the expansion of the Dindori Tasting Room and Bottle Shop, is expected to drive growth in the wine tourism segment, positively impacting performance in H2FY25. Management anticipates a return to robust growth beginning in Q4FY25, with momentum building as early as December. Additionally, plans to enhance accommodation capacity are underway, with the addition of 30 new rooms near York Winery in Nashik, increasing the total capacity by 30%, from 104 rooms to 134.

We continue to believe in the company's long-term growth prospects. **At its CMP of ₹396/-, the stock trades at ~43.5 its TTM EPS of ₹9.1 and recommends investors to hold the stock.**

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**Quarterly Performance**

(₹ Cr)

Particulars	Q2FY25	Q2FY24	VAR	Q1FY25	VAR	H1FY25	H1FY24	VAR
<b>Gross Sales</b>	<b>141.21</b>	<b>142.83</b>	<b>-1.1%</b>	<b>128.44</b>	<b>9.9%</b>	<b>269.65</b>	<b>259.42</b>	<b>3.9%</b>
Excise duty on Sales	8.85	9.14	-3.2%	7.51		16.36	17.24	-5.1%
<b>Net Sales (Net of Excise Duty)</b>	<b>132.36</b>	<b>133.69</b>	<b>-1.0%</b>	<b>120.93</b>	<b>9.5%</b>	<b>253.29</b>	<b>242.18</b>	<b>4.6%</b>
Other Operating Income	0	0	-	0	-	0	0	-
<b>Total Operating Income</b>	<b>132.4</b>	<b>133.7</b>	<b>-1.0%</b>	<b>120.9</b>	<b>9.5%</b>	<b>253.3</b>	<b>242.2</b>	<b>4.6%</b>
Other Income	0.76	0.89	-14.6%	1.26	-39.7%	2.02	2.46	-17.9%
<b>TOTAL INCOME</b>	<b>133.1</b>	<b>134.6</b>	<b>-1.1%</b>	<b>122.2</b>	<b>8.9%</b>	<b>255.3</b>	<b>244.6</b>	<b>4.4%</b>
Total Raw Material Cost	28.0	29.2	-4.2%	23.4	19.8%	51.4	52.1	-1.5%
Cost of Raw Material & Components Consumed	13.05	15.56	-16.1%	11.71	11.4%	24.76	26.46	-6.4%
(Increase)/ Decrease in Inventories	11.52	10.13	13.7%	8.65	33.2%	20.17	18.04	11.8%
Purchase of Traded Goods	3.42	3.54	-3.4%	3.01	13.6%	6.43	7.63	-15.7%
<i>Total Raw Material Cost % to Sales</i>	<i>21.1%</i>	<i>21.9%</i>		<i>19.3%</i>		<i>20.3%</i>	<i>21.5%</i>	
Employee Cost	23.8	21.64	10.0%	23.81	0.0%	47.61	43.18	10.3%
<i>Employee Cost % to Sales</i>	<i>18.0%</i>	<i>16.2%</i>		<i>19.7%</i>		<i>18.8%</i>	<i>17.8%</i>	
Selling & Distribution Expenses	21.13	14.24	48.4%	17.12	23.4%	38.25	27	41.7%
<i>Selling &amp; Distribution Expenses % of Sales</i>	<i>16.0%</i>	<i>10.7%</i>	<i>5.3%</i>	<i>14.2%</i>		<i>15.1%</i>	<i>11.1%</i>	<i>4.0%</i>
Other Expenses	25.84	24.38	6.0%	22.67	14.0%	48.51	45.32	7.0%
<i>Other Expenses % of Sales</i>	<i>19.5%</i>	<i>18.2%</i>		<i>18.7%</i>		<i>19.2%</i>	<i>18.7%</i>	
<b>TOTAL EXPENDITURE</b>	<b>98.8</b>	<b>89.5</b>	<b>10.4%</b>	<b>87.0</b>	<b>13.6%</b>	<b>185.7</b>	<b>167.6</b>	<b>10.8%</b>
<b>EBIDTA</b>	<b>33.6</b>	<b>44.2</b>	<b>-24.0%</b>	<b>34.0</b>	<b>-1.1%</b>	<b>67.6</b>	<b>74.6</b>	<b>-9.4%</b>
<i>EBIDTA Margin %</i>	<i>25.4%</i>	<i>33.1%</i>		<i>28.1%</i>		<i>26.7%</i>	<i>30.8%</i>	
Finance Costs	7.59	6.52	16.4%	7.1	6.9%	14.69	11.84	24.1%
<b>PBDT</b>	<b>26.8</b>	<b>38.6</b>	<b>-30.6%</b>	<b>28.1</b>	<b>-4.8%</b>	<b>54.9</b>	<b>65.2</b>	<b>-15.8%</b>
Depreciation, Ammortization & Impairment	8.69	7.61	14.2%	8.63	0.7%	17.32	15.17	14.2%
<b>PBT before Tax</b>	<b>18.1</b>	<b>31.0</b>	<b>-41.6%</b>	<b>19.5</b>	<b>-7.2%</b>	<b>37.6</b>	<b>50.0</b>	<b>-24.9%</b>
Tax	3.6	7.87	-54.3%	4.86	-25.9%	8.46	13.23	-36.1%
<i>Tax Rate %</i>	<i>19.9%</i>	<i>25.4%</i>		<i>24.9%</i>		<i>22.5%</i>	<i>26.5%</i>	
<b>Reported Profit after Tax</b>	<b>14.5</b>	<b>23.1</b>	<b>-37.3%</b>	<b>14.6</b>	<b>-1.0%</b>	<b>29.1</b>	<b>36.8</b>	<b>-20.8%</b>
<i>PAT Margin %</i>	<i>10.9%</i>	<i>17.3%</i>	<i>-6.3%</i>	<i>12.1%</i>		<i>11.5%</i>	<i>15.2%</i>	<i>-3.7%</i>
Other Comprehensive Income (net of tax)	-0.1	0.0		-0.6		-0.65	-1.32	
<b>Total Comprehensive Income</b>	<b>14.4</b>	<b>23.1</b>	<b>-37.8%</b>	<b>14.1</b>	<b>2.3%</b>	<b>28.5</b>	<b>35.5</b>	<b>-19.7%</b>
<b>EPS</b>	<b>1.71</b>	<b>2.73</b>	<b>-37.3%</b>	<b>1.73</b>	<b>-1.0%</b>	<b>3.44</b>	<b>4.35</b>	<b>-20.8%</b>
Equity	16.9	16.9	0.0%	16.9		16.9	16.9	0.0%
Face Value	2.0	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 November 25, 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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