

**Chirag Shah**chirag.shah@clsa.com  
+91 22 6650 5055**Vatsal Dujari**

+91 22 6650 5059

21 March 2023

**India****Consumer**Reuters SULA.NS  
Bloomberg SULA INPriced on 20 March 2023  
CNX Nifty @ 16,988.4

12M hi/lo Rs426.25/310.75

12M price target Rs475.00  
±% potential +44%Shares in issue 84.2m  
Free float (est.) 23.4%

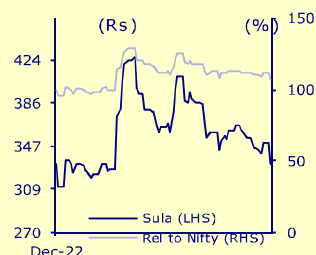
Market cap US\$337m

3M ADV US\$1.3m

Foreign s'holding 35.1%

Major shareholders  
Promoter group 27.3%**Blended ESG Score (%)\***Overall 83.8  
Country average 71.0  
GEM sector average 71.7  
\*Click to visit company page on clsa.com for details**Stock performance (%)**

	1M	3M	12M
Absolute	(13.9)	na	na
Relative	(9.6)	na	na
Abs (US\$)	(13.7)	na	na



Source: Bloomberg

**Winning with wine****Market leader of the Indian wine market; huge headroom to grow**

Sula Vineyards Limited (Sula) is well placed to leverage the global consumer shift towards the low-alcohol beverage segment - beer and wine. With strong backend capabilities and a pan-Indian distribution network, Sula is India's market leader in wines with a >52% market share in the 100% grape wine category. Its healthy Ebitda margin (>29% in 9mFY23), gives Sula the ability to invest in category development which would be key for long-term growth. We expect an EPS Cagr of 18.6% over the next two years and initiate with a BUY rating and a PT of Rs475.

**Industry shift towards low-alcohol drinks**

The global alcoholic beverage market is dominated by low-alcohol drinks comprised of beer and wine. By market size, India is the third-largest alcoholic beverage market in the world at Rs2.5tn (US\$33bn) as of FY20. Beer and wine contribute about 8% to the overall alcohol consumption in India but wine's share is very little at 0.7%, or Rs19bn in FY20. With multiple tailwinds in place, the wine industry in India should see a 14.4% Cagr over 2022-25F, according to Technopak.

**India's wine industry pioneer**

With >52% market share, Sula is the market leader in India's wine industry, dominating in value and volume and across price segments and wine variants. The vineyard's key competitive advantages include the largest national wine distribution network, robust manufacturing capabilities and strong sourcing ability with respect to long-term contracts with third-party farmers.

**Wine is a premium opportunity**

With strong brand recognition and backend capabilities in place, Sula's incremental strategy is to grow its own brands over third parties. Using a price straddle approach, it guides consumers towards its premium wines through upselling. Strategic investments to further drive market penetration and expand its wine tourism business are additional levers for growth.

**Financials in good shape, focus on growth**

Sula's focus on growing its own high-margin premium brand has helped it increase Ebitda margin to >29% in 9MFY23 vs c.25% in FY22; We expect a 17.5% revenue Cagr and an 18.6% EPS Cagr over the next two years but Ebitda margins should moderate to 27.3% by FY25CL as the company focusses on category development. Change in wine incentives schemes remains a key regulatory risk. We value Sula at 34x FY25 EPS (15% discount to the average of other alcohol beverage companies) and initiate with a PT of Rs475; BUY.

**Financials**

Year to 31 March	21A	22A	23CL	24CL	25CL
Revenue (Rsm)	3,859	4,244	5,205	6,158	7,224
Net profit (Rsm)	53	521	841	987	1,183
EPS (Rs)	2.6	6.2	10.0	11.7	14.1
CL/consensus (0) (EPS%)	-	-	-	-	-
EPS growth (% YoY)	nm	138.0	61.3	17.3	19.9
PE (x)	126.9	53.3	33.1	28.2	23.5
FCF yield (%)	15.6	1.5	0.8	1.6	2.8
PB (x)	2.2	7.0	6.0	5.1	4.5
ROE (%)	1.7	14.9	19.6	19.7	20.3
Net debt/equity (%)	90.0	58.1	52.6	44.3	34.8
Ebitda (Rsm)	609	1,133	1,567	1,817	2,109

Source: www.clsa.com



## Financials at a glance

Year to 31 March	2021A	2022A	2023CL	(% YoY)	2024CL	2025CL
<b>Profit &amp; Loss (Rsm)</b>						
Revenue	3,859	4,244	5,205	22.6	6,158	7,224
Cogs (ex-D&A)	(1,575)	(1,171)	(1,315)		(1,586)	(1,854)
<b>Gross Profit (ex-D&amp;A)</b>	<b>2,285</b>	<b>3,073</b>	<b>3,890</b>	<b>26.6</b>	<b>4,572</b>	<b>5,369</b>
SG&A and other expenses	(1,675)	(1,940)	(2,323)		(2,755)	(3,260)
<b>Op Ebitda</b>	<b>609</b>	<b>1,133</b>	<b>1,567</b>	<b>38.3</b>	<b>1,817</b>	<b>2,109</b>
Depreciation/amortisation	(257)	(236)	(256)		(289)	(314)
<b>Op Ebit</b>	<b>352</b>	<b>897</b>	<b>1,311</b>	<b>46.2</b>	<b>1,528</b>	<b>1,795</b>
Net interest inc/(exp)	(298)	(201)	(189)		(212)	(217)
Other non-Op items	-	-	0		0	0
<b>Profit before tax</b>	<b>54</b>	<b>695</b>	<b>1,122</b>	<b>61.3</b>	<b>1,316</b>	<b>1,578</b>
Taxation	(2)	(174)	(280)		(329)	(394)
<b>Profit after tax</b>	<b>53</b>	<b>521</b>	<b>841</b>	<b>61.3</b>	<b>987</b>	<b>1,183</b>
Minority interest	0	0	0		0	0
<b>Net profit</b>	<b>53</b>	<b>521</b>	<b>841</b>	<b>61.3</b>	<b>987</b>	<b>1,183</b>
<b>Adjusted profit</b>	<b>53</b>	<b>521</b>	<b>841</b>	<b>61.3</b>	<b>987</b>	<b>1,183</b>
<b>Cashflow (Rsm)</b>						
<b>Operating profit</b>	<b>352</b>	<b>897</b>	<b>1,311</b>	<b>46.2</b>	<b>1,528</b>	<b>1,795</b>
Depreciation/amortisation	257	236	256	8.6	289	314
Working capital changes	482	(143)	(249)		(422)	(446)
Other items	104	(116)	(289)		(338)	(403)
<b>Net operating cashflow</b>	<b>1,195</b>	<b>874</b>	<b>1,029</b>	<b>17.7</b>	<b>1,057</b>	<b>1,260</b>
Capital expenditure	(156)	(459)	(817)		(620)	(470)
<b>Free cashflow</b>	<b>1,040</b>	<b>415</b>	<b>212</b>	<b>(48.9)</b>	<b>437</b>	<b>790</b>
M&A/Others	(61)	(109)	26		30	34
<b>Net investing cashflow</b>	<b>(217)</b>	<b>(568)</b>	<b>(791)</b>		<b>(590)</b>	<b>(436)</b>
Increase in loans	(588)	(723)	300		100	-
Dividends	0	(194)	(168)		(197)	(355)
Net equity raised/other	(357)	305	(216)		(243)	(252)
<b>Net financing cashflow</b>	<b>(945)</b>	<b>(613)</b>	<b>(84)</b>		<b>(340)</b>	<b>(607)</b>
Incr/(decr) in net cash	34	(306)	153		126	217
Exch rate movements	-	-	-		-	-
<b>Balance sheet (Rsm)</b>						
Cash & equivalents	408	102	256	150.5	382	599
Accounts receivable	1,236	1,094	1,426	30.4	1,670	1,939
Other current assets	2,177	2,497	2,461	(1.4)	2,787	3,111
Fixed assets	3,141	3,454	4,047	17.2	4,409	4,595
Investments	0	0	-		-	-
Intangible assets	137	168	135	(19.6)	105	75
Other non-current assets	280	271	269	(0.4)	269	269
<b>Total assets</b>	<b>7,380</b>	<b>7,586</b>	<b>8,595</b>	<b>13.3</b>	<b>9,623</b>	<b>10,588</b>
Short-term debt	2,460	1,856	2,056	10.8	2,156	2,156
Accounts payable	583	674	721	6.9	869	1,016
Other current liabs	338	371	371	0	371	371
Long-term debt/CBs	691	543	633	16.6	623	613
Provisions/other LT liabs	259	189	189	0	189	189
Shareholder funds	3,047	3,953	4,626	17	5,415	6,243
Minorities/other equity	0	0	0		0	0
<b>Total liabs &amp; equity</b>	<b>7,380</b>	<b>7,586</b>	<b>8,595</b>	<b>13.3</b>	<b>9,623</b>	<b>10,588</b>
<b>Ratio analysis</b>						
Revenue growth (% YoY)	(20.5)	10.0	22.6		18.3	17.3
Ebitda margin (%)	15.8	26.7	30.1		29.5	29.2
Ebit margin (%)	9.1	21.1	25.2		24.8	24.9
Net profit growth (%)	nm	891.9	61.3		17.3	19.9
Op cashflow growth (% YoY)	167.6	(26.9)	17.7		2.7	19.2
Capex/sales (%)	4.0	10.8	15.7		10.1	6.5
Net debt/equity (%)	90.0	58.1	52.6		44.3	34.8
Net debt/Ebitda (x)	4.5	2.0	1.6		1.3	1.0
ROE (%)	1.7	14.9	19.6		19.7	20.3
ROIC (%)	5.3	10.8	14.4		15.0	16.2

Source: www.clsa.com

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Sula dominates India's wine industry with 52.6% market share

The company opened India's first vineyard resort in 2008 and launched the nation's first wine-in-a-can in 2020

Market leader in terms of value and volume, across segments and variants

## India's wine industry pioneer

With 52.6% market share, Sula is the market leader in India's wine industry, dominating in value and volume and across price segments and wine variants. The vineyard's key competitive advantages include the largest national wine distribution network, robust manufacturing capabilities and strong sourcing ability with respect to long-term contracts with third-party farmers.

### Company History

Figure 1

Timeline	
	Time line
2003	The company was incorporated as Nashik Vintners Limited
2005	Launched India's first wine tasting room at its winery in Nashik, Maharashtra
2008	Organised Sula Fest - India's first wine-themed music festival at its Nashik facility Opened the country's first vineyard resort
2014	Changed name to Sula Vineyards Private Limited
2015	Acquired 50.00% of the share capital (at a total cash consideration of Rs63m) of Remy Sula India Private Limited, which was subsequently renamed as Artisan Spirits Private Limited (ASPL). ASPL became a wholly-owned subsidiary of the Company
2017	Entered into an agreement for acquiring the winery unit business from Heritage Grape Winery Private Limited (Karnataka) on a slump sale basis for a total cash consideration of Rs346.28m Launched "The Source" range of wines
2018	Acquired 51.00% of the paid-up share capital of PADPL
2020	Launched "Dia", India's first wine-in-a-can
2021	Through subsidiary company, Artisan Spirits Private Limited, entered into an agreement for acquiring the winery unit business from York Winery Private Limited for a total consideration of Rs171.65m Divested entire stake from PADPL, aggregating to 51% of its paid-up share capital

Source: Sula Vineyards

### Largest Indian wine producer and seller

Sula vineyards is India's largest wine producer and seller as of March 31, 2021 and has been a consistent market leader in the Indian wine industry in terms of sales volume and value (on the basis of the total revenue from operations) since FY09, crossing 50% market share by value in the domestic 100% grapes wine market in FY12, and is India's largest wine producer and seller as of March 31, 2021.

Sula is the market leader across all the four price segments, being 'Elite' (Rs 950+), 'Premium' (Rs 700-950), 'Economy' (Rs 400-700) and 'Popular' (<Rs 400), with a higher share of c.60% by value in the 'Elite' and 'Premium' categories in FY22, as compared to its overall market share of c.52.6% in the Indian wine industry. Sula is the market leader across all wine variants including red, white and sparkling wines. Sula Shiraz Cabernet was India's largest selling wine by value in FY21. Its FY22 net sales of Sula Shiraz Cabernet amounted to Rs918.26 million.

The 'Elite' and 'Premium' wine categories contributed c.59% by value

Consistent market share in 100% grape wine category

The 'Elite' and 'Premium' wine categories contributed c.59% by value and 38% by volume of the Indian domestic 100% grape wine market in FY20 and are projected to deliver a 19% Cagr by volume in the period between FY21 to FY25 as compared to overall category growth of c.15% during the same period, as per Technopak

Figure 2

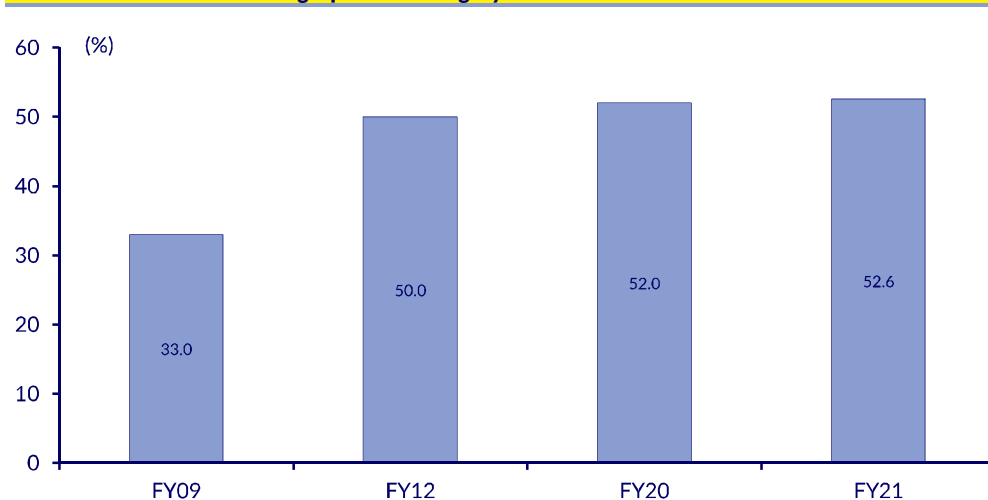
**Brands and labels across categories as of March 31, 2022**

Category	Brand	Labels
Elite (Rs 950+)	Sula	Brut, Brut Tropicale, Sparkling Shiraz, Riesling, Chenin Blanc Reserve, Late Harvest Chenin Blanc
	Dindori	Viognier, Chardonnay, Shiraz
	RASA	Syrah, Cabernet Sauvignon, Zinfandel
	The Source	Cabernet Sauvignon, Grenache Rosé, Sauvignon Blanc, Moscato
	York	Arros, York Late Harvest Chenin Blanc, H Block Chardonnay, Sparkling Rosé, Sparkling Cuvée
Premium (Rs700-950)	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
Economy (Rs400-700)	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
Popular (<Rs400)	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: Sula Vineyards

Figure 3

**Value market share in 100% grape wine category**



Source: Sula Vineyards

Sula's operations divided into wine and wine tourism

Sula Produces two types of wines: Still and Sparkling

Sula has 56 labels to choose from a portfolio of 13 distinct brands as of March 31, 2022

Sula wines are available at various price points between Rs250 to Rs1,850 per 750 ml bottle in Maharashtra

Sula services close to 8,000 hotels, restaurants and caterers

Sula has built the largest distribution network among wine companies in India with close to 13,000 retail touchpoints across the country in 2022

Sula's business operations are divided into two categories:

- ❑ **Wine Business:** Production of wine, import of wine and spirits and distribution of wines and spirits.
- ❑ **Wine Tourism Business:** The ownership and operation of wine tourism venues including vineyard resorts and tasting rooms

The company produce two types of wines:

- ❑ **Still wine:** Wine that is neither sparkling nor fortified. Still wine constituted c.87.15% of its total production as of March 31, 2022 with 13 labels under the Elite category, 11 labels each under the Premium and Economy categories and 9 labels under the Popular category; and
- ❑ **Sparkling wine:** Wine that contains bubbles from dissolved carbon dioxide. Sparkling wine constituted approximately 12.85% of its total production as of March 31, 2022 with 6 labels under the Elite category and 2 labels each under Premium and Economy categories

The company distributes wines under a bouquet of popular brands. In addition to the flagship brand "Sula" popular brands include "RASA" "Dindori", "The source", "Satori", "Madera", and "Dia", with flagship brand "Sula" being the "category creator" of wine in India.

Sula's consumer proposition focuses on offering consumers extensive varieties of wine at varying price points, with 56 labels to choose from a portfolio of 13 distinct brands as of March 31, 2022.

#### **Price straddle approach allows to cater to a wider market**

Sula follows a price straddle approach, offering consumers extensive varieties of wine at varying price points with over 56 wine varietals to choose from. Sula wines are available at various price points between Rs235 to Rs1,850 per 750 ml bottle in Maharashtra making them accessible for consumers with different budgets appealing to mass markets as well as having a premium product strategy.

#### **Strong tie-ups with distributors offers wider reach**

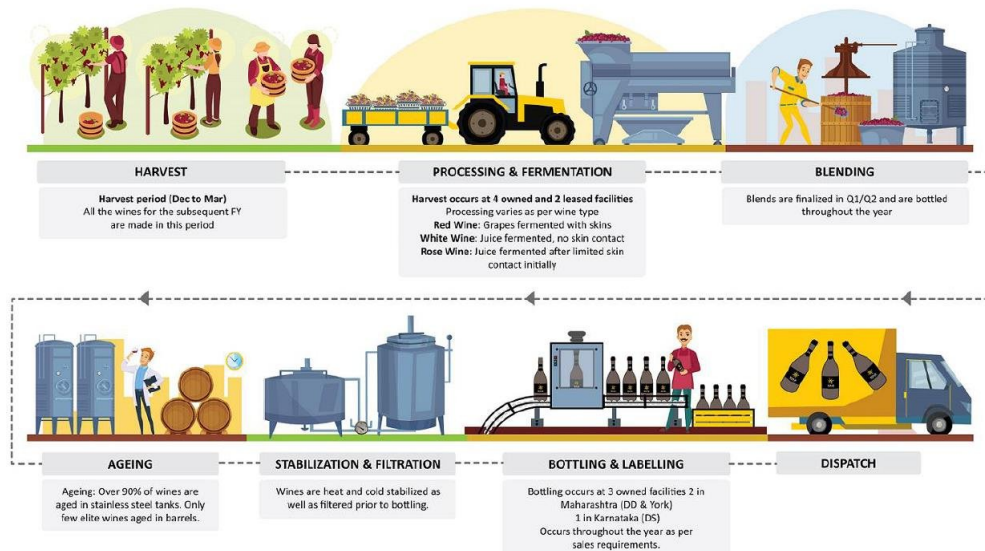
In terms of distribution, Sula services c.8,000 hotels, restaurants and caterers, making it the leader in terms of footprint among wine players in India.

The company has experienced a significant rise in Off-trade sales in the last three years with Off-trade sales contributing c.72.25% of sales during FY22 as compared to c.61.33% in FY20. Sula has built the largest distribution network among wine companies in India with c.13,000 retail touchpoints across the country in 2022. It also has a strong direct to consumer ("D2C") selling channel primarily through the wine tourism business facilities in Nashik and Bengaluru. The company has strong tie-ups with distributors in Maharashtra, Haryana, Delhi, Goa and Punjab, which is a very important factor, given that the distribution network of alcoholic beverages in India is managed by a small group of distributors across the country.

## Sula's production process for wines

Figure 4

## Wine production process



Source: Sula Vineyards

Harvest of wine grapes in India typically runs for four months from December and continues until March

Fermentation period lasts between 1.5 and 3.0 weeks

Majority of its wines are made in refrigerated stainless-steel tanks, some of the higher end "Elite" wines are aged in oak barrels

Sula's white wines are ready for bottling within two months post completion of the fermentation process, while red wines take around three to four months

- ❑ The harvest of wine grapes in India typically runs for four months from December and continues until March each year.
- ❑ Once the grapes have been delivered to wineries during this period, the basic process of producing wine involves the conversion of the sugar in grapes into alcohol through fermentation by yeast. The fermentation period lasts between 1.5 and 3.0 weeks and once complete, the wine is aged (if required), blended, stabilized, filtered and bottled.
- ❑ While a majority of its wines are made in refrigerated stainless-steel tanks, some of the higher end "Elite" wines are aged in oak barrels. Red wines generally require longer ageing compared to white and rosé wines, prior to bottling.
- ❑ Some of the Elite wines (both red and white) that are aged in oak barrels require around 6-12 months before bottling. Typically, Sula's white wines are ready for bottling within two months post completion of the fermentation process, while red wines take around three to four months. Typically, wines in the "Elite" category are aged for a longer period of time.
- ❑ **White wines** incorporate white grapes, with the fermentation process incorporating the grape's juice only, with no interaction with the grape skin. For **red wines**, the fermentation process also involves the red grape skin, which results in an extraction of tannins and colour from the skin to the wine. **Rosé wines** have a limited duration of grape skin contact thereby giving them a paler colour in comparison to the traditional red wine.
- ❑ Sula currently does not produce any fortified wines, which are produced by adding in distilled spirits to red or white wine. Fortified wines are generally of a lower quality priced under Rs200 for a 750 ml bottle, contributing to the lower end of the 'Popular' category in the Indian wine market. The share of low-quality fortified wines has been on a decline in the recent years reducing from 38% in 2014 to 17% to 2019.



Maharashtra's Nashik region is often regarded as India's Napa Valley

Domaine Sula facility is Sula's third largest winemaking facility with a tank capacity of 1.139 m litres

### Strong backend manufacturing capabilities in place

Sula's manufacturing and processing infrastructure comprises of four wineries in Maharashtra and two in Karnataka, with bottling units located at its Domaine Dindori, Domaine Sula and York facilities.

#### Owned facilities

- ❑ **Domaine Dindori Winery:** Domaine Dindori facility is Sula's largest winemaking and production facility with a tank capacity of 6.62 m litres as of March 31, 2022. All wines (excluding York) are bottled and supplied from Domaine Dindori to all markets, with the exception of Karnataka region which is supplied with wine bottled from Domaine Sula
- ❑ **Nashik Winery:** Established in 2000, Nashik facility is Sula's second largest winemaking facility with a tank capacity of 4.64 m litres as of March 31, 2022. Nashik facility comprises a vineyard, a wine tasting room (launched in FY05), a boutique vineyard resort, two restaurants and an amphitheatre. Sula commenced its Wine Tourism Business at Nashik facility, and currently owns and operates two vineyard resorts located at and adjacent to the winery, under "The Source at Sula" and "Beyond by Sula" brand names, having room capacities of 57 and 10 keys as of March 31, 2022, respectively.
- ❑ **Domaine Sula Winery:** Domaine Sula facility is Sula's third largest winemaking facility with a tank capacity of 1.139 m litres as of March 31, 2022. Located in between Bengaluru and Mysore in Karnataka, this facility comprises a vineyard, a wine tasting room, a restaurant and a production facility where the company make its wines for the Karnataka market

Figure 5

Facility at Nashik, Maharashtra



Source: Company

The York facility has tank capacity of 0.484m litres

- ❑ **York Winery:** The York facility comprises a wine tasting room, a restaurant and a winemaking and production facility with a tank capacity of 0.484m litres as of March 31, 2022. This facility is strategically located around 2km from Nashik winery providing operational synergies and the potential to grow further

Figure 6

Domaine Sula facility in Karnataka



Source: Company

Leased Winery 1 is a winemaking facility with a tank capacity of 0.994 m litres

Leased Winery 2 is a winemaking facility with a tank capacity of 0.662 m litres

Domaine Dindori is Sula's largest winemaking and production facility, with a 6.62m litres tank capacity as of Mar-22

Capacity utilisation has grown steadily across Sula facilities

### Leased facilities

- ❑ **Leased Winery 1:** Leased in 2020, Leased Winery 1 is a winemaking facility with a tank capacity of 0.994 m litres as of March 31, 2022, located around 6km from its Domaine Dindori facility. Process of crushing the grapes and making the wines are undertaken at this facility which are then sent over to Domaine Dindori facility for bottling
- ❑ **Leased Winery 2:** Leased in 2019, Leased Winery 2 is a winemaking facility with a tank capacity of 0.662 m litres as of March 31, 2022 located c. 750 km from Domaine Sula facility. The process of crushing the grapes and making the wines are undertaken at this facility which are then sent over to its Domaine Sula facility for blending and bottling

Figure 7

Installed capacity			
(m litres)	FY20	FY21	FY22
Domaine Dindori	6.621	6.621	6.621
Nashik Winery	4.539	4.571	4.640
Leased Winery 1	0.994	0.994	0.994
York Winery (ASPL)			0.484
<b>Total Maharashtra (A)</b>	<b>12.153</b>	<b>12.185</b>	<b>12.739</b>
Domaine Sula (DS)	1.121	1.136	1.139
Leased Winery 2	0.675	0.662	0.662
<b>Total Karnataka (B)</b>	<b>1.796</b>	<b>1.798</b>	<b>1.801</b>
<b>Total (A+B)</b>	<b>13.949</b>	<b>13.983</b>	<b>14.540</b>

Source: Sula Vineyards

Figure 8

Capacity utilisation			
(m litres)	FY20	FY21	FY22
Nashik Winery	2.737	2.895	3.679
Domaine Dindori	4.587	4.923	5.261
Leased Winery 1	0.692	0.768	0.894
York Winery (ASPL)			0.396
<b>Total Maharashtra (A)</b>	<b>8.016</b>	<b>8.586</b>	<b>10.229</b>
Domaine Sula (DS)	0.766	0.814	0.922
Leased Winery 2	0.293	0.310	0.399
<b>Total Karnataka (B)</b>	<b>1.059</b>	<b>1.124</b>	<b>1.321</b>
<b>Total (A+B)</b>	<b>9.076</b>	<b>9.710</b>	<b>11.550</b>

Source: Sula Vineyards



York Winery is acquired in FY22 through wholly owned subsidiary ASPL

Top wine producing states, Maharashtra and Karnataka, are also the top consuming states contributing close to 57% of the overall market, as per Technopak

Sula typically aims to launch one to two new products every year

Figure 9

Key properties of the company		
	Location	Area (in acres / square metres)
<b>Sula</b>		
Nashik Winery	Maharashtra	25.49 acres
Domaine Dindori	Maharashtra	18.67 acres
Dindori (farm)	Maharashtra	20.48 acres
Domaine Sula	Karnataka	15.21 acres
Hubtown (office carpet area)	Maharashtra	818.28 square metres
Ashok Astoria (two flats carpet area)	Maharashtra	183.00 square metres
<b>Artisan Spirits Private Limited (ASPL)</b>		
York Winery	Maharashtra	1.54 acres

Source: Sula Vineyards

### Procurement and raw materials

Key ingredients and raw materials required for the production of Sula's wines include grapes, additives, processing aids and packaging material.

- ❑ For 'Elite' and 'Premium' categories Sula uses wine grapes, such as Shiraz, Cabernet Sauvignon, Chenin Blanc, etc.
- ❑ For the economy and more popular categories, it uses a combination of wine grapes and widely available table grapes, such as Thompson seedless.

Key additives and processing aids used in winemaking process are largely standard and primarily imported.

As of December 2021, Sula had access to close to 2,600 acres of vineyards, which is significantly higher in comparison to the second largest wine company in the Indian market at c.460 acres. Of these 2,600 acres, Sula has entered into long term supply arrangements (of up to 12 years) with contract farmers for c.2,160 acres. Such long term supply arrangements cover more than 90% of its annual supply of wine grapes, and it intends to continue to expand its wine grape supply via long term contracts with third party farmers. Sula has long term supply arrangements (average of 12 year contract life with an option to renew further with mutual consent) with approximately 500 contract farmers.

### Product development

Sula typically aims to launch one to two new products every year. The following factors are evaluated prior to the launch of any new product with a new product typically being launched only if each of these conditions are satisfied:

- ❑ **Market for the product:** Given that India is a country new to wine consumption, Sula also evaluates if there are similar wines that have a large market globally;
- ❑ **Climatic conditions for the grapes:** Ability of the required variety of grapes to grow in the tropical climatic conditions in India at an acceptable quality level while also being economically viable for the farmers; and
- ❑ **Pricing:** Ability to launch the product at a competitive price point to attain meaningful volumes and contribute to profitability

The economic life cycle of a vineyard in India is typically 15 to 20 years with a relatively long gestation period

Planting a vineyard in India, on an average, requires a minimum commitment of 12 years by the grower

In addition to "Sula", the company owns the "RASA", "The source", "Dindori", "York", "Satori", "Mosiatic", "Madera", "Samara" and "Dia" brand names, among others

### Strong distribution and branding are competitive advantages

Sula has established itself as the market leader on the back of key strengths in distribution, marketing and manufacturing. Being a pioneer in wine tourism also aids in brand recognition while high entry barriers in wine industry further favours incumbents with a strong track record

#### High barriers of entry

- ❑ **Long gestation period:** The vast majority of wine grape vineyards are tied up for long term contracts which limits the ability of new players to source for high quality wine grapes in meaningful quantities. The economic life cycle of a vineyard in India is typically 15 to 20 years with a relatively long gestation period (of approximately two years) associated with its setting up. Given the long term nature of these contracts, grape growers prefer incumbents with a proven track record
- ❑ **Limited access to distribution:** Distribution is typically controlled by a limited set of players who typically prefer tying up with a single producer per category
- ❑ **Difficulty in brand creation:** Brand creation is very difficult given the restrictions on advertising of alcoholic beverages in India
- ❑ **High import duties, freight and logistics costs:** Imported wines face high import duties as well as freight and logistic barriers that render them much more expensive relative to locally produced wines
- ❑ **Climatic conditions:** Grapes being a temperate crop, the tropical climatic conditions in India require extensive research and development in order to produce good quality wines
- ❑ **Vineyard plantation:** Planting a vineyard in India, on an average, requires a minimum commitment of 12 years by the grower. Given the long lead time to develop vineyards, it is difficult for new entrants to venture into the Indian wine industry and secure a consistent and steady supply source for high quality wine grapes
- ❑ **Complicated regulatory framework:** Complex and differing regulations in each state applicable to the production and sale of alcoholic beverages require extensive compliance, which is only feasible for the bigger players and brands making it unviable for new entrants
- ❑ **Availability of skilled personnel:** With there being no national training institute for winemaking in the country, the number of skilled winemakers is very limited in India

#### Established player with strong brands

Since incorporation in 2003, Sula has built a strong network across key markets, which gives the company a competitive advantage over other wine players. The "Sula" brand is recognized as the market leader across wine variants, including red, white and sparkling wines. "Sula" is also recognized as the "category creator" for wines in India.

In addition to "Sula", the company owns the "RASA", "The source", "Dindori", "York", "Satori", "Mosiatic", "Madera", "Samara" and "Dia" brand names, among others, which are strong individual brands with their own distinct identities. For the 100% grapes wine category and in terms of value, the company has consistently gained market share, from 33% in FY09 in 100% grapes wine category to 52% in value in FY20 and further increased to 52.6% in FY21.

As of March 31, 2022, Sula had a total of 56 domestic wine labels

It has access to > 23,000 points of sale (including over 13,500 retail touchpoints and over 9,000 hotels, restaurants and caterers) as of March 31, 2022

Sula's distribution platform includes over 47 distributors, 10 corporations, 23 licensed resellers, 7 company depots, 4 defence units, over 23,000 points of sale

### **Robust product portfolio and innovation capabilities**

With product portfolio of more than 50 domestic wines labels and over 25 imported alcoholic beverage labels comprising wines and spirits, Sula serves a large cross-section of customers (by type, income and demography), providing them the widest range of choices at price points between Rs235 to Rs1,850. Sula introduced varietal wines in India in the 2000s, with its Sauvignon Blanc, Chenin Blanc, Zinfandel, Riesling, Red Sparkling and dessert wine offerings. It introduced red-sparkling wine in India and also canned wine in 2020 under brand 'Dia'. Canned wine in India has the potential to build a new wine on the go segment.

Sula was the first to adopt the use of refrigerated stainless-steel tanks for the production of wines, which went on to revolutionize tropical winemaking. It also introduced the 'Charmat' method for producing sparkling wines which enables it to produce wines faster and more efficiently. Additionally, it introduced screwcaps on wine bottles in 2006. Screwcaps in place of cork ensures that wine is not spoilt due to leakage or cork taint. It has also helped retailers store higher quantity of wines. This is one of the important innovations which has helped the industry grow in India.

### **Largest wine distribution network and sales presence**

As of March 31, 2022, Sula has presence in 25 states and 6 union territories in India. Sula entered the overseas markets in 2003, and currently has distribution agreements with various distributors having license to offers its wines in over 20 countries. Sula's widespread sales and distribution platform enables its products to reach its consumers ensuring consistent availability. With access to > 23,000 points of sale (including over 13,500 retail touchpoints and over 9,000 hotels, restaurants and caterers) as of March 31, 2022, the products have a high visibility and availability across the country. The products are available through various points of sale such as general trade (which includes traditional retail points, such as licensed alcohol and wine shops through distributors and stockists), hotels, restaurants, cafes and modern trade channels which includes ecommerce platforms and select supermarkets across India.

Sula's distribution platform includes over 47 distributors, 10 corporations, 23 licensed resellers, 7 company depots, 4 defence units, over 23,000 points of sale (including >13,500 retail touchpoints and >9,000 hotels, restaurants and caterers) and a sales force of > 130 permanent employees as of March 31, 2022.

Through its wine tourism facilities in Nashik and Bengaluru, Sula has strong direct to consumer selling channel with an average sale of c.225,000 bottles each year over the last three financial years.

Almost all of Sula's primary sales happen via distributors and corporations with the exception of Gujarat and a few clients in Tamil Nadu, where it directly supplies to institutions, with such sales together accounting for less than 1% of total primary sales.

Secondary sales are split across three channels: (i) Off-trade and retail; (ii) On-trade and institutional channels; and (iii) Direct-to-customer at the hospitality outlet. 74% of secondary sales are made through Off-trade and retail channel while 22% of secondary sales are made through the institutional channels where it has established tie-ups with leading hotel chains, such as the Taj, and Oberoi groups in India. Lastly, the direct-to-customer sales account for only 4% of secondary sales.

During FY22, 72.25% of secondary sales are made through Off-trade (vs 61.33% in FY20) while 23.33% of secondary sales are made through the on-trade channel where it has established tie-ups with leading hotel chains, such as the Taj and Oberoi groups in India

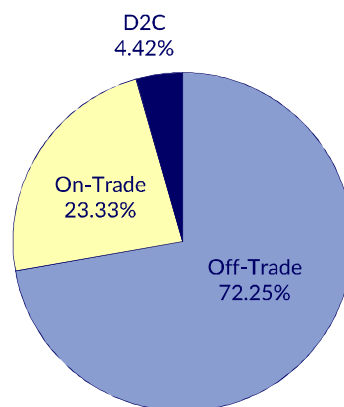
Distribution platform included over 90 distributors, 10 corporations, over 20,000 points of sale

It is the most visited vineyard in India, with c.3,68,000 people visiting its vineyards in FY20

“The Source at Sula” and “Beyond by Sula” vineyard resorts located at and adjacent to its facility in Nashik, Maharashtra, having a combined room capacity of 67 rooms as of March 31, 2022

Figure 10

#### Secondary sales split by channels for FY22



Source: Sula Vineyards

Figure 11

#### Distribution network across territories



Source: Sula Vineyards

#### Leader and pioneer of India's wine tourism business

With combination of resorts, tasting rooms and restaurants, Sula has aided in creating a unique wine culture in India. It offers a curated experiences, such as wine tasting sessions, winery tours and gourmet dining options at its wineries, enabling to build a stronger connect with consumers and popularise wine tourism in the country. It is the most visited vineyard in India, with c.3,68,000 people visiting its vineyards in FY20. As part of its wine tourism business, it owns and/or operates “The Source at Sula” and “Beyond by Sula” vineyard resorts located at and adjacent to its facility in Nashik, Maharashtra, having a combined room capacity of 67 rooms as of March 31, 2022 (increased from 33 rooms in FY18).

Of the total income from wine tourism of Rs588m for FY22, c.41% represents sale of wine and liquor, c.29% from room rentals and the balance is from foods & beverages, merchandise and others

Figure 12

Occupancy levels			
	2020	2021	2022
Average room occupancy at resort (%)	66.48	43.66	70.97
Occupancies (%)			
The Source at Sula	64	41	69
Beyond by Sula	76	56	82

Source: Sula Vineyards

Figure 13

Key revenue streams from wine tourism business			
	FY20	FY21	FY22
Revenue per room (Rs)	8,759	9,044	10,367
Room revenue (Rsm)	93.30	87.91	170.07
Room revenue to total income (%)	1.73	2.09	3.72
Sales of F&B, merchandise and others (Rsm)	188.37	93.47	176.14
Sale of Wine and Liquor (Rsm)	189.42	139.7	242.01
Total income	471.09	321.08	588.22

Source: Sula Vineyards



Sula's key strategy is to grow its own high-margin brands over third parties

The company has three SKUs: 375ml, 750ml and 1,500ml

Share in 'Elite' and 'Premium' was about 60% by value in FY20 and FY21

## Wine is a premium opportunity

With strong brand recognition and backend capabilities in place, Sula's incremental strategy is to grow its own brands over third parties. Premiumisation is set to be a key lever for growth, with the company increasing its prices at an average of 6% over FY17-22. Using a price straddle approach, it guides consumers towards its premium wines through upselling. Strategic investments to further drive market penetration and expand its wine tourism business are additional levers for growth.

### Focus on premiumisation of product portfolio

Sula currently produces and markets a total of 34 labels under the 'Elite' and 'Premium' categories providing the largest offerings in the Indian wine market under these segments. Its share in the 'Elite' and 'Premium' categories was about 60% by value in FY20 in FY21.

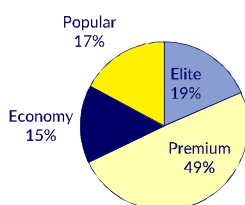
Figure 14

Key Players: Wine labels across Price Segments (price in Rs)					
Brands	Elite (>Rs950)	Premium (Rs700-Rs950)	Economy (Rs400-Rs700)	Popular (<Rs400)	Total
Sula	21	13	13	9	56
Fratelli Wines	8	11	4	3	26
Grover Zampa	12	13	8	2	35
Pernod Ricard	8	0	0	0	8

Source: Company website, Sula Vineyards

Figure 15

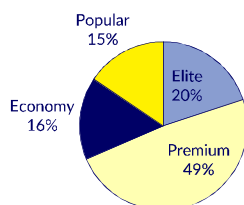
#### Revenue contribution for FY20



Source: Company

Figure 16

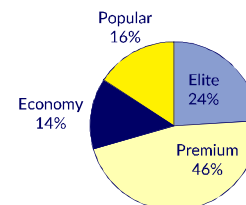
#### Revenue contribution for FY21



Source: Company

Figure 17

#### Revenue contribution for FY22



Source: Company

Sula intends to continue to leverage its distribution capability to launch new products under these categories to further increase revenue and market share in the Indian wine market.

Sula launched "The Source" brand with four labels in FY18, FY19, FY20 and FY22, and undertook a rebranding of "RASA" brand in FY22. It launched a total of seven labels under its brands, Sula, The Source, RASA and Dindori, in the last five Financial Years, which have all been in the 'Elite' category and together were able to acquire a market share of 9% in the 'Elite' category by the end of FY21.

Here are the snapshot of some of Sula's best-selling labels under the 'Elite' and 'Premium' brands:

Figure 18

**"RASA" range of wines**

Source: Company

Figure 19

**"The Source" range of wines**

Source: Company

Figure 20

**"Dindori" range of wines**

Source: Company

Figure 21

**"York" range of wines**

Source: Company

Figure 22

**"Sula" range of wines**

Source: Company

**Price hikes in FY22 for 750ml bottle**

- ❑ Rasa Syrah by 40.66% to Rs1,491 per bottle;
- ❑ Sula Sparkling Brut Tropicale by 16.62% to Rs1,270 per bottle;
- ❑ The Source Grenache Rosé by 7.72% to Rs751 per bottle

**Elite and premium segment revenue contribution continues to expand**

**Wine consumption gets majority of consumers from the top urban centres**

**Going forward, Sula intends to increase its distribution capabilities on a pan India basis and accelerate its D2C sales**

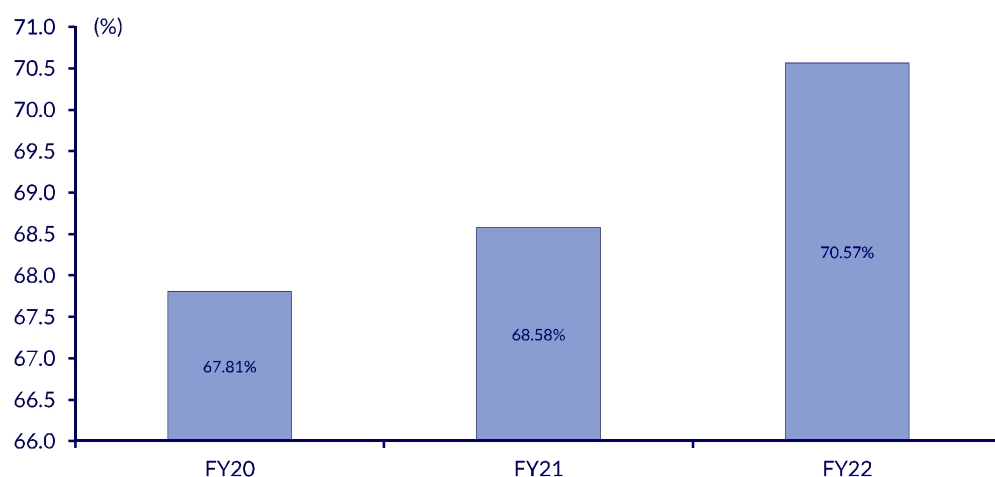
Sula has been successful in consistently raising its wines prices by an annual (fiscal) average of 6% from March 31, 2017 to March 31, 2022. The average sales price of wines has increased from Rs3,378/case as of March 31, 2017 to Rs4,480/case as of March 31, 2022. During the same period, there was consistent sales growth volumes in the "Elite" and "Premium" categories, from 393,878 cases sold in FY20 to 442,833 cases sold in FY22, signifying a greater demand for premium wines in the Indian wine market. .

Additionally, it also imports and markets 20 international labels (18 wine labels, two spirit labels and one beer label; collectively the "third party brands") which are priced in line with 'Elite' category.

A key driver of consumer strategy for Sula is catering to different target consumers across various price points and enabling them to upgrade to higher value products.

Figure 23

#### Elite and premium segment revenue contribution



Source: Company

#### Focus on raising wine awareness and deepening distribution

Wine consumption gets its majority of consumers from the top urban centres in the country with Mumbai, Bengaluru, Delhi NCR, Pune, and Hyderabad contributing more than 70% of the overall market.

Sula's strategy is to increase its focus on the under penetrated markets in major Metros like Chennai and Kolkata, the tourist markets of Kerala, Rajasthan and Goa, and other Tier-1 and 2 cities across India.

- ❑ It focuses on introducing wines from 'Elite' and 'Premium' range when entering new markets, further driving the shift towards its strategy of premiumisation. Additionally, with 'Dia' brand, it seeks to achieve greater market penetration due to increased accessibility of aluminium cans, being single serve offerings at a lower average selling price.
- ❑ During the Covid-19 pandemic there was a significant rise in Off-trade over On-trade due to the lockdowns imposed in various parts of the country. Going forward, Sula intends to increase its distribution capabilities on a pan India basis and accelerate its D2C sales.

Sula is among the top 10 most followed vineyards in the world, and has a large following on social media

A review of vineyards on Instagram shows that Sula is among the top 10 most followed vineyards in the world. It has a large following on social media with c.103,000 followers on Instagram, c.123,000 follows on Facebook and c.14,000 followers on Twitter

- In January 2022, the Maharashtra cabinet passed a proposal to allow the sale of wine at supermarkets and walk-in shops in Maharashtra as long as the shop has an area of 1,000 square feet and is registered under the Maharashtra Shops and Establishments Act. Subject to the receipt of licenses by supermarkets and walk-in shops, this proposal strengthens the Company's distribution channel in Maharashtra. This proposal could increase the demand and sales for Sula's products

### Enhanced focus on digital media to increase awareness of wine in India

Modern techniques such as digital marketing and social media platforms, are instrumental in Sula's outlook to increase awareness of brand and wine in general in India. Sula's initiatives included a combination of social media lifestyle and wine influencer activities, through which "influencers" with a significant following, conduct promotional activities for its wine tourism business through Company's or their own social media channels. Sula is among the top 10 most followed vineyards in the world, and has a large following on social media with c.103,000 followers on Instagram, c.123,000 follows on Facebook and c.14,000 followers on Twitter as on Jan'28, 2022.

Figure 24

#### Social media outreach of key brands in world wine market (value in '000)

('000)			
Winery	Number of Instagram followers	Number of Likes on Facebook page	Number of Twitter followers
LMVH Wines and Spirits	908	291.1	171.5
Catena Zapata	157	43.8	21.9
Champagne Taittinger	128	491	1.8
Marchesi Antinori	109	51.1	11.4
Sula	103	122.9	13.8
Bodega Garzon	89.2	71.3	6.3
Zuccardi Wines	68.7	23.9	15.6
Vina VI	64.7	3.9	—
Victoria Bitter	41.1	165.7	1.9
Marques de Riscal	39.1	17.3	17.9
Bordeaux Wines	36	239	48.1
Fratelli Wines	34.9	72.8	2.6
E&J Gallo Winery	11.3	7.4	1.4
Grover Zampa	8.7	24.7	1.2
Changyu	1.4	588	1.3
Constellation Brands	979	37.5	—

Source: CLSA, Sula Vineyards DRHP. Note: (1) This is not an exhaustive list, data as of January 28, 2022  
(2) N.A. implies data Not Available; Data arranged in descending order of number of Instagram followers

It acquired the brands and assets of Heritage Winery and York Winery in FY17 and FY22

Sula imports and markets 20 international labels

Own brand sales accounted for 91.42% of revenue from operations in FY22

### Strategic investments and acquisitions to consolidate the Indian wine industry

Sula has a demonstrated record in acquiring and successfully integrating companies and teams over the last few years, with two significant acquisitions in the last five years. Sula is continuously looking out for potential synergies through the M&A route. Through these acquisitions it seeks to consolidate its position even further in the Indian wine market, increasing its scale and market share.

It acquired the brands and assets of Heritage Winery ("Heritage") and York Winery in FY17 and FY22, respectively. In particular, the acquisition of Heritage was extremely strategic, providing Sula with its first owned manufacturing facility in Karnataka, allowing it to avail the benefit of significantly lower duties on the sale of its wines in Karnataka and also offering tremendous growth potential to increase its wine tourism business.

Sula's strategy is to actively pursue strategic investments and acquisitions which are complementary to its business. Such efforts will be focused on: (a) increasing market share further; (b) deepening presence in certain geographies; and (c) improving profitability.

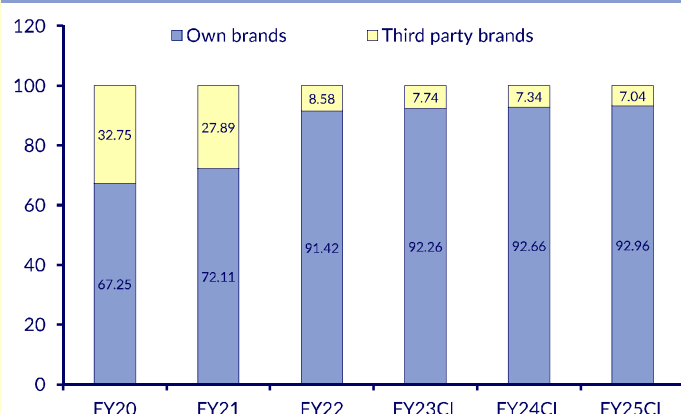
### Incremental growth: Focus on own brands vs third party

The company imports and markets 20 international labels (18 wine labels and two spirit labels; collectively the "third party brands") which are priced in line with the 'Elite' category (more than Rs950).

Sula's incremental growth focus is on its own brands over third party ones that it imports and distributes. The company made a clear shift towards focusing on its own brands in FY20, a shift that was further accelerated by the Covid-19 pandemic. Sales of its own brands accounted for 91.42% of revenue in FY22, compared to 67.25% in FY20. We expect revenue from third party brands to reduce to 7.04% and its share in volumes to reduce to 3.74% by FY25.

Figure 25

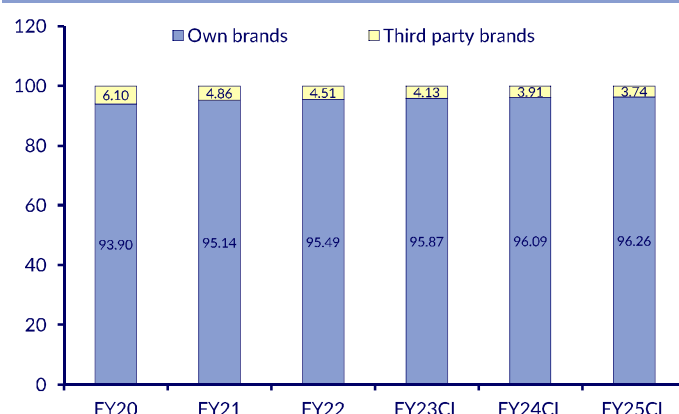
**Sula: Revenue split between own and third party brands**



Source: CLSA, Company

Figure 26

**Sula: Volume split between own and third party brands**



Source: CLSA, Company

Sula introduced red-sparkling and canned wine to India

Sula introduced red-sparkling wine to India and was also the nation's pioneer for canned wine in 2020 under its own brand 'Dia'. Since they are lightweight, aluminium cans ensure that wine cools down quickly using less energy, and is easy to transport, with larger volumes being transported in a single shipment, in turn reducing carbon footprint. Aluminium is also highly recyclable.



Sula's incremental focus is to expand its wine tourism business

### Expansion of the wine tourism business

Sula's wine tourism business is an important factor contributing to growth. The company held its first "SulaFest" in 2008 - a two-day celebration of wine, music and food in Nashik. "SulaFest" festival is widely sought after and more than 10,000 people attended the festival in 2020. A lot of first-time wine tastings are done in vineyards, thus establishing the importance of wine tourism.

Furthermore, its wine tourism business is also characterised by the highest D2C sales and profitability in the Indian wine industry. Sula's incremental focus is to expand its wine tourism business, to build on its brand, experience and learnings in the business.

Sula has developed a pan-India wine tasting program with regular wine tasting sessions held across cities for its consumers, as well as for training the staff employed by hotels, restaurants and cafés that sell its wines.

Figure 27

#### Wine tourism facility in Nashik, Maharashtra



Source: Company

Figure 28

#### "The Source at Sula" facility in Nashik, Maharashtra

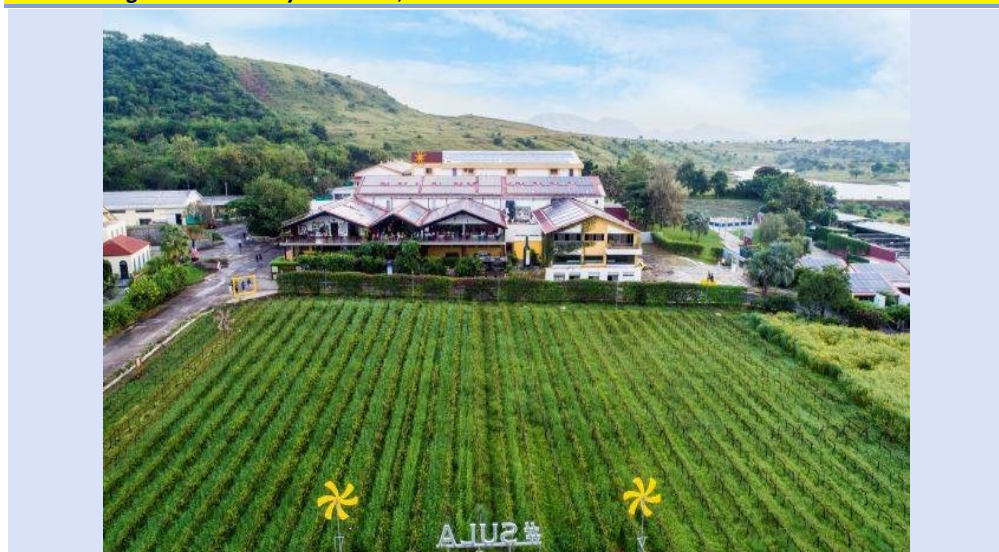


Source: Company

The firm has developed a pan-India wine tasting program with regular wine tasting sessions

Figure 29

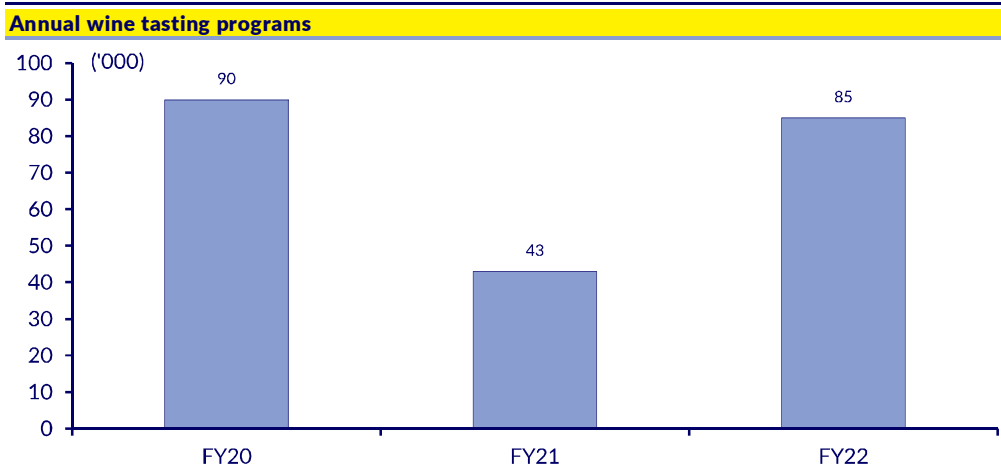
#### Wine tasting room at facility in Nashik, Maharashtra



Source: Company

Amid Covid-19, wine tasting programs reduced in FY21

Figure 30



Source: Company

## Peer comparison: Alcoholic beverage industry

Figure 31

### Key players: Wine labels across price segments

Brands	Elite (>Rs950)	Premium (Rs700-950)	Economy (Rs400-700)	Popular (<Rs400)	Total	Illustrative Brands
Sula	21	13	13	9	56	RASA, The Source, Dindori, Sula Classics, Sula International Brands
Fratelli Wines	7	11	1	1	20	J'NOON, JCB, MS, NOI, TILT
Grover Zampa	7	7	4	from 0	18	Insignia, Vendanges Tardives, Chêne, Auriga, Vijay Amritraj, Soirée, La Réserve, Art Collection, One Tree Hill, Santé
Pernod Ricard	8	0	0	0	8	Jacob's Creek

Source: Company website, Sula Vineyards DRHP

Sula has the largest geographic presence in India for wines

Figure 32

**Geographic presence**

Industry	Brands	Reach - States and Union Territories
Spirits	Diageo	30-32
	Pernod Ricard	30-32
	Radico Khaitan	30-32
Beer	United Breweries	30-32
Wine	Sula	30-32
	Fratelli Wines	21-23
	Grover Zampa	15-18

Source: Annual Reports, Sula Vineyards

Widest reach in India in terms of retail outlets

Figure 33

**Key brands: Retail coverage**

Industry	Brands	Retail outlets	HoReCA outlets
Spirits	Diageo	70,000+ outlets	na
	Pernod Ricard	50,000+ outlets	na
	Radico Khaitan	75,000+ outlets	8,000+ outlets
Beer	United Breweries	90,000+ outlets	na
Wine	Sula	13,000+ outlets	8,000+ outlets
	Fratelli Wines	9,000+ outlets	5,000+ outlets
	Grover Zampa	3,000+ outlets	na

Source: Annual Reports, Sula Vineyards

USA has the largest number of visitors in wine tourism

Sula offers a wide range of tourism services and activities

Legal, regulatory and policy environment is evolving and subject to change

Extensive regulations for distribution and sale of food and alcohol in India

### Opportunities in wine tourism

Wine tourism is becoming an increasingly important adjunct in terms of attracting new customers as well as being a source of revenue generation. It involves and brings to the fore the entire process of winemaking, from planting grapes to selling wine.

Sula established the first wine tasting room in India in 2005, marking the initiation of wine tourism in India. Consumers who come to the vineyards for day visits and/or overnight stays can also gain an in-depth understanding of the winemaking and tasting processes, savouring them with food.

Figure 34

#### Wine tourism (visitors in top wine markets 2020)

Country	Estimated number of visitors (in m)
USA	22-23
France	10-12
Italy	5-7
Spain	2.5-3
Australia	5-7

Source: Sula Vineyards

Figure 35

#### Wine tourism activities in different vineyards in India

Offering in Wine Tourism	Sula	Fratelli Wines	Grover Zampa Vineyards	Chandon India
Start of wine tourism	2008	n.a.	n.a.	2016
Footfall in FY20	c.368,000	n.a.	n.a.	n.a.
Tour	Y	Y	Y	Y
Tasting	Y	Y	Y	Y
Grape Stomping	Y	N	Y	N
Dining	Y	Y	Y	Y
Restaurant	Y	Y	Y	N
Bottle Shop	Y	Y	Y	Y
Music Festival	Y	N	Y	N
Hotel/Resort	Y	Y	N	N

Source: Sula Vineyards Note: n.a. implies Not Available, Y as Yes and N as No

### Key risks

#### Frequent shifts in regulatory stance

The legal, regulatory and policy environment in which the company operates is evolving and subject to change. Its business and financial performance could be adversely affected by unfavourable changes in, or interpretations of existing laws, or the promulgation of new laws, rules and regulations applicable to the company and its business. Such laws include prohibition laws, licensing requirements, labelling restrictions and restrictions on advertising.

- ❑ The company is subject to the regulatory compliance requirements of various authorities in all states in which it sells its wines including extensive regulation of the distribution and sale of consumable food items, and specifically alcoholic beverages, by the Food Safety and Standards Authority under Food Safety and Standard Act, 2006 ("FSS Act"), the excise department under the excise laws of

**Complex and diverse tax structure**

the relevant state and the relevant state corporations. Such authorities impose a number of product safety, labelling, pricing, storage, transportation and other requirements on its operations and sales.

- ❑ Manufacture and distribution of wine, as is the case with other segments of alcoholic beverages such as spirits and beer, is subject to a complex and diverse tax structure by both the Government of India and the various state governments in India.
- ❑ The company receives a significant subsidy by the Maharashtra government in the form of the Wine Industrial and promotion Subsidy (WIPS) and any roll back of this scheme is a key risk as this contributes directly to the company's operating profits. However trends in FY23 so far have given confidence to the company that this would continue.

Figure 36

Government grants for Sula Vineyards			
(Rs mn)	FY20	FY21	FY22
Government grants	290	273	353
Ebitda	489	609	1,132
Government grants as a % of Ebitda	59%	45%	31%

Source: CLSA, Sula Vineyards

Government grants as a % of Ebitda has come down from FY20

**Reduction in wine import duty could increase competition****Risk of duty reduction for imported wines**

Currently, the import of alcoholic beverages in India attracts an import duty at the rate of 150% of the value of the wine being imported. Given the high cost of import, the wine market in India has limited international entrants. If the Government reduces the import duty on wine in India, the company may face increased competition from international labels by its competitors or other distributors, which may have higher appeal to consumers in terms of variety and pricing. For instance, on April 2, 2022 India entered into an interim Australia-India Economic Cooperation and Trade Agreement with Australia which when in force, will offer a phased reduction of import duty over a period of 10 years on certain Australian wines imported to India.

**Sula has long-term supply arrangements with about 500 contract farmers****Adverse climatic conditions may impact quality of wine grapes**

As of March 31, 2022, the company had long term supply arrangements (with an average contract life of up to 12 years with an option for renewal) with c.500 contract farmers. The rates payable under these contracts are fixed on a per kilogram basis subject to the fulfilment of predetermined parameters. The supply of table grapes, which forms a part of its 'Economy' and 'Popular' wine segments is abundant and the company procure these from grape growers directly.

**Climate change may affect grape production**

Changes in climate, including unseasonal rain, changing monsoon conditions and the drastic and sudden peaks of temperatures within the same season that have characterized the last few years in India, can significantly damage harvests and affect the cultivation of grapes. As a result of these changes in climate, there is a risk that the company may not be able to obtain adequate supply of the premium grapes for its business operations.

Lack of formal packaging arrangements could lead to shortages

Glass bottles are a major component of packing costs . . .

. . . and thus of Cogs

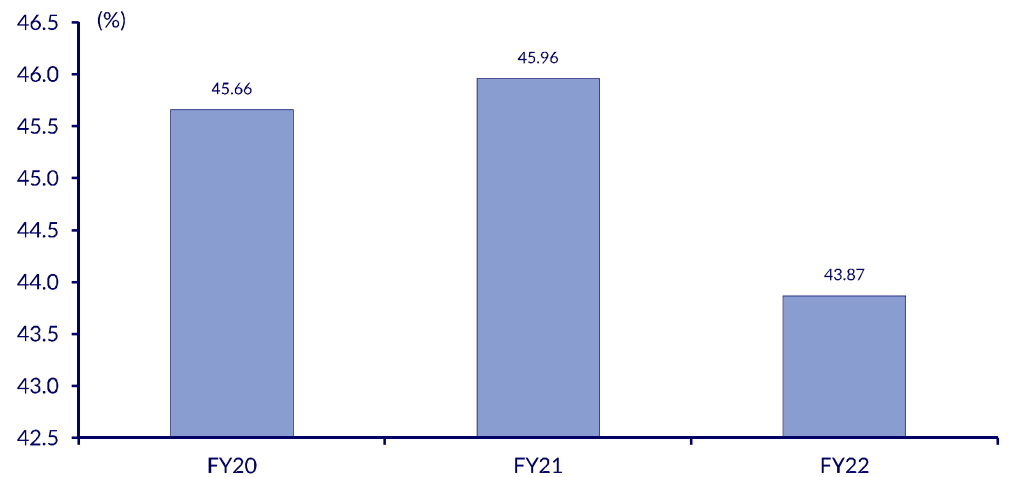
India's wine market trends are broadly following other markets in their early stages

### Supply disruption of packaging materials and consumables

The company does not have formal arrangements to purchase some of its packaging materials and consumables with suppliers. If its suppliers for any particular packaging materials or consumables are unable or unwilling to meet its requirements or its estimates fall short of the demand, the company could suffer shortages or cost increases.

Figure 37

#### Contribution of glass bottles to total packing costs



Source: Sula Vineyards

Processed raw materials such as glass bottles are one of its largest components of cost of goods sold. The inability of any of its glass bottle suppliers to satisfy its requirements could materially and adversely affect business. In addition, costs and programs related to mandatory recycling and recyclable materials deposits could be adopted in states of manufacture, imposing additional and unknown costs to manufacture products utilising glass bottles.

### State regulation may limit power to effect price changes

Sula may only adjust the retail prices of its products with approval from the state governments (including the respective excise departments) in certain states where the wine market is price controlled, including but not limited to Delhi, Telangana, Tamil Nadu, Orissa, Andhra Pradesh and Kerala.

State excise departments typically prefer approving the lowest selling price and there is no assurance that the company will be able to obtain approval from the state governments to increase the retail prices of its products. If it is unable to increase its revenues sufficiently to offset increased costs due to inflation, it could have an adverse effect on its business, prospects, financial condition, results of operations and cash flows.

### Change in consumer preferences

While the Indian wine market is relatively young, it is broadly following the trends that other wine markets, such as China, experienced when wine was introduced. Sula's future growth and success will depend significantly on its ability to anticipate changes in market trends and consumer tastes and preferences, and then identify, source and bring to the market in a timely manner wine products that satisfy the preferences of a broad range of consumers.



Consumer preferences are hard to predict and changes could affect sales

The company has launched seven new labels in the past five years

Consumer preferences in the markets Sula operates are difficult to predict and changes to preferences or the introduction of new products by competitors could put the company products at a competitive disadvantage. Recently, there was a trend of consumers becoming more health-conscious as a result of the Covid-19 pandemic. A very low base underpinned by economic growth, positive demographic dividend and increasing acceptance of low alcohol content alcoholic beverages are set to drive the Indian wine market to a prolonged period of strong growth. While beer and wine can be classified as low alcoholic content drinks, changing trends such as these may reduce demand for its products and cause sales to decline.

To address changing market trends, the company has launched seven new labels to grow its business and diversify its portfolio over the past five years. For example, the company under its "The Source" brand launched four labels in FY18, FY19, FY20 and FY22, and undertook a rebranding of "RASA" brand in FY22. The company has launched a total of seven labels under its brands, "Sula", "The Source", "RASA" and "Dindori", in the last five Financial Years, which have all been in the 'Elite' category and together were able to acquire a market share of 9% in the "Elite" category by the end of FY21. In FY20, it has introduced red-sparkling wine in India and have also been the pioneer in introducing canned wine in FY20 under its brand "Dia".

#### **Brands and the success of strategy depends on the ability to enhance brands**

Its brand and reputation are among the most important assets, and the company believe they attract consumers to its products over those of its competitors. The company produces and distributes wines under a bouquet of popular brands. In addition to the flagship brand "Sula", popular brands include "RASA", "Dindori", "The Source", "Satori", "Madera", and "Dia", with its flagship brand "Sula" being the category creator of wine in India. Currently, the company produces 56 different labels of wine at four owned and two leased production facilities located in the Indian states of Maharashtra and Karnataka.

Enhancing own brands is a key component of its business strategy to respond to the changing consumer landscape. Consumers in existing or new markets may be unfamiliar with the company brand and products, and it may need to build or increase brand awareness by increasing investments in promotional activities. The company may also face competition with other established brands in the new markets it intend to enter. The company has incurred, and may continue to incur in the future, significant expenditures to build brand awareness and preference over other domestic and international products.

#### **Revenue from operations is dependent upon a limited number of customers**

Customers of the Wine Business are primarily state run corporations, wholesalers and independent distributors who purchase the company's products for resale to retail outlets, restaurants, hotels and private clubs across India, and in some overseas markets. A change in its relationship with any of its significant customers could harm business and reduce sales.

Top 5 customers account for 27.25% of revenue from operations in FY22

Grape farms, wine facilities concentrated in west and southwest India

Inaccurate demand expectations could have an adverse effect

Changes in environmental rules could affect operations

Figure 38

Revenue from top five customers (which includes state run corporations, wholesalers and independent distributors)			
	FY20	FY21	FY22
Revenue from operations (Rsm)	1,685.19	1,494.43	1,690.76
as a % of overall revenue from operations (%)	32.31	35.76	37.25

Source: Sula Vineyards

In northern India, the sales of manufactured goods to BrindCo Sales Private Limited accounted for 5.96% of its sales from its Own Brands in FY22 (compared to 2.23% in FY21 and 1.53% in FY20).

### Regional concentration of processing units, raw materials and operations

The farming of wine grapes, the major raw material for its operations, is concentrated in the west and south-western states of India. Its wine processing units are also located in the west and southwest of India, with its flagship facility located in Nashik, Maharashtra, and its wine processing units located in Nashik and Dindori in Maharashtra, and Bengaluru and Basavakalyan in Karnataka.

Any significant social, political, economic or seasonal disruption, or natural calamities or civil disruptions in western or south western parts of India, or changes in the policies of the state or local government of the region or the Government of India, could require Sula to incur significant capital expenditure, change business structure or strategy, which could have an adverse effect on business, results of operations, future cash flows and financial condition.

### Seasonality requires demand assessment

The wine industry in India is characterised by seasonal demands for its products. Historically, demand has tended to be the highest during the months of November through January. Accordingly, the company must plan its annual production levels based on predictions of demand, including a build-up of raw material and finished goods inventory for dispatch during and prior to peak sales periods. The company makes these predictions from its own market assessments as well as sales targets provided by its distributors and/or corporations. However, if the company were to make an inaccurate prediction of such demands, it could have an adverse effect on the business. In addition, during seasons of lower demand, it continues to incur overhead expenses, but sales from operations may be delayed or reduced.

### Failure to comply with environmental law and regulations

The company is subject to various national, state, municipal and local laws and regulations concerning environmental protection in India, including laws addressing the discharge of pollutants into the air and water. Environmental laws and regulations in India are becoming more stringent, and the scope and extent of new environmental regulations, including their effect on its operations, cannot be predicted with any certainty. In case of any change in environmental laws, the company may be required to invest in, among other things, equipment for environmental monitoring, pollution control, and emissions management. Furthermore, any violation of the environmental laws and regulations may result in fines, civil or criminal sanctions, revocation of operating permits, or shutdown of its facilities.

Improved margin and strengthened return profile

As profitability improved in FY22, company declared a Rs4.9 dividend

In FY22, own-label gross margin was 67.6% vs 35.2% for third party brands

## Financials in good shape, valuations reasonable

Coming out of the pandemic, Sula has not only recovered lost sales, it has also improved financials. Sula's focus on growing its own high-margin premium brand has helped the company increase its Ebitda margin to >25% in FY22 and >29% in the first nine months of FY23. In turn, the significant margin recovery raised its return profile as well. On the back of rising inventory days, its working capital requirements continue to stretch, but this is primarily with an eye on demand for the next 12 months. The company has declared dividends of Rs4.9/share for FY22, which is about 37% of earnings. With better internal accruals, it has also reduced its borrowings (largely for working capital), reducing its net-debt/equity position to 0.53x as of Mar-22.

### Profit and loss account: Improving mix aids margin

With an increase in focus on developing its own-brand wine business, the company has increased new product launches in the Elite and Premium segments, which has led to higher growth and better margin delivery. As profitability improved in FY22, the company declared dividends of Rs4.9/share.

### Focus on accelerating growth from own brands

A focus on its own labels over third party brands works well because the Sula brands have gained recognition in the domestic market and are margin accretive for the company. Gross margin for its own label was 67.6% for FY22 compared to 35.2% for third party brands. As the share of third party brands contracted YoY, gross margin has expanded from c.49% in FY20 to c.68% in FY22. This has also helped Sula better its Ebitda margin profile. We expect gross margins to sustain in the 69-70% range from FY23-25CL with a revenue Cagr of c.19% over FY22-25CL. Ebitda margins are expected to moderate as the company looks to increase marketing spends for category development.

Figure 39

Summary profit and loss account						
(Rsm)	FY20	FY21	FY22	FY23CL	FY24CL	FY25CL
Own brands	3,316.22	2,873.00	3,808.91	4,744.04	5,623.22	6,631.65
Third party brands and distribution business <sup>1</sup>	1,614.76	1,111.24	357.36	397.74	442.69	492.71
<b>Wine business</b>	<b>4,930.98</b>	<b>3,984.24</b>	<b>4,166.27</b>	<b>5,141.78</b>	<b>6,065.90</b>	<b>7,124.36</b>
Wine tourism business	281.67	181.38	346.21	425.46	506.61	561.31
Others	3.69	13.97	26.68	30.00	35.00	40.00
<b>Revenue from operations</b>	<b>5,216.34</b>	<b>4,179.59</b>	<b>4,539.16</b>	<b>5,597.24</b>	<b>6,607.51</b>	<b>7,725.67</b>
Gross profit	2,577.53	2,284.60	3,072.68	3,890.08	4,572.40	5,369.34
Gross margin	49%	55%	68%	70%	69%	70%
EBITDAE (Inc. Other income)	504.93	645.12	1,160.71	1,599.07	1,852.91	2,148.95
<b>EBITDAE margin (%)</b>	<b>9.7%</b>	<b>15.4%</b>	<b>25.6%</b>	<b>28.6%</b>	<b>28.0%</b>	<b>27.8%</b>

Source: CLSA, company, <sup>1</sup> Third Party Brands and distribution business includes the revenue from sales of alcoholic beverages imported by Sula and revenue from brands distributed by its erstwhile subsidiary PADPL in FY20 and FY21.

^^ Includes provisions and balances no longer required, which were written back, and other miscellaneous sale of packing material consumables etc.

Sula has increased its focus on its owned brand business

In FY22, manufactured goods recovered with 30% YoY growth

Shift from third-party is visible in 61% decline in FY22 traded goods revenue

Lower excise duty due to change in product and geographical mix

Figure 40

Revenue from alcoholic beverages							
(Rsm)	FY20	FY21	FY22	FY23CL	FY24CL	FY25CL	Cagr (22-25CL)
Volume (m litres)							
Owned brands	7.68	6.46	8.04	9.27	10.37	11.54	13%
Third-party brands and distribution business	0.5	0.33	0.38	0.40	0.42	0.44	5%
Total volume (m litres)	8.18	6.78	8.42	9.67	10.79	11.98	12%
Realisations (Rs/L)							
Owned brands	432	445	474	512	542	575	7%
Third-party brands and distribution business	3230	3367	940	997	1057	1120	6%
Revenue from operations							
Own brands	3,316	2,873	3,809	4,744	5,623	6,632	20%
Third party brands and distribution business	1,615	1,111	357	398	443	493	11%
<b>Wine business</b>	<b>4,931</b>	<b>3,984</b>	<b>4,166</b>	<b>5,142</b>	<b>6,066</b>	<b>7,124</b>	<b>20%</b>

Source: Sula Vineyards

We expect a 20% Cagr in revenues from the wine selling business with a 12% volume Cagr over FY22-25CL. Premiumisation and price increase should make up the balance of the growth during this period.

#### Revenue concentration in alcoholic beverage business

Sula generates more than 80% revenue by selling its own and third party alcoholic beverages. Manufactured goods staged a recovery in FY22 with YoY growth of 30%. This growth is attributed to higher demand for wines, price hikes during the year and better sales mix due to higher volume share in Elite and Premium wines.

Shift in focus from third-party brands (traded goods) is visible in 61% YoY decline in traded goods revenue for FY22 and 31% decline for FY21. For FY21, the decline is largely attributed to the divestment of PADPL, the subsidiary company engaged in beer trading.

In FY22, the wine tourism business saw 90.88% YoY growth, aided by higher occupancies and ARR YoY. The business was impacted in FY21, amid Covid-19 restrictions, leading to a 35.6% YoY decline in revenue. Revenue in 1HFY21 was Rs10.52m vs Rs99.57m in 1HFY20.

An increase in government grants for FY22 is attributed to higher gross sales of goods manufactured in Maharashtra (+26.75% YoY to Rs1.86bn). Similarly, for FY21 the decline was the result of lower gross sales of goods manufactured in Maharashtra.

Excise duty declined YoY for FY22 due to changes in product and geographical mix. The excise duty structure changed in Delhi and Telangana in FY22 resulting in a respective reduction in excise duty. The excise duty paid by the company in Delhi reduced from Rs68.23m in FY21 to Rs10.03m in FY22, and in Telangana from Rs36.53m in FY21 to Rs18.7m in FY22. For FY21, reduction in excise is largely due to lower overall income.

Higher government grant in FY22 due to higher gross sales of goods made in Maharashtra

Sula's revenue is more than three times that of the second largest player

The firm also grew sales more quickly than peers in the pre-Covid decade

Figure 41

Breakdown of revenue					
(Rsm)	FY20	FY21	YoY (%)	FY22	YoY (%)
Manufactured goods	3,026.01	2,599.58	(14.1)	3,379.41	30.0
- In Maharashtra	1,597.64	1,457.10	(8.8)	1,941.66	33.3
- In Karnataka	1,428.37	1,142.48	(20.0)	1,437.75	25.8
Traded goods	1,614.76	1,111.24	(31.2)	433.41	(61.0)
<b>Sale of products (including excise duty)</b>	<b>4,640.77</b>	<b>3,710.82</b>	<b>(20.0)</b>	<b>3,812.82</b>	<b>2.7</b>
as a % of gross revenue	89.0	88.8		84.0	
Sale of services	281.67	181.38	(35.6)	346.21	90.9
as a % of gross revenue	5.4	4.3		7.6	
Other operating revenues	293.90	287.39	(2.2)	380.13	32.3
as a % of gross revenue	5.6	6.9		8.4	
- Government grant	290.21	273.42	(5.8)	353.45	29.3
<b>Gross revenue from operations</b>	<b>5,216.34</b>	<b>4,179.59</b>	<b>(19.9)</b>	<b>4,539.16</b>	<b>8.6</b>
Excise duty on sales	363.93	320.19	(12.0)	295.04	(7.9)
as a % of gross revenue	7.0	7.7		6.5	
<b>Net revenue from operations</b>	<b>4,852.41</b>	<b>3,859.40</b>	<b>(20.5)</b>	<b>4,244.12</b>	<b>10.0</b>

Source: Sula Vineyards

Figure 42

Gross sales growth Cagr for private and public listed players						
(%)		FY11-14	FY11-19	FY11-21	FY14-19	FY20-21
Spirits	Diageo <sup>1</sup>	17.30	10.50	7.80	6.60	(4.90)
	Pernod Ricard <sup>1</sup>	43.80	27.30	20.80	18.40	(9.30)
	Radico Khaitan <sup>1</sup>	21.60	21.50	19.90	21.50	10.10
Beer	United Breweries <sup>1</sup>	16.40	15.10	8.30	14.30	(30.50)
Wine	Sula <sup>1</sup>	28.10	22.00	13.70	18.50	(13.70)
	Fratelli Wines <sup>2</sup>	181.50	81.90	71.30	40.00	3.40
	Grover Zampa <sup>2</sup>	19.70	19.60	12.40	19.70	(27.00)

<sup>1</sup>Indicates that the IND AS accounting principle has been considered. <sup>2</sup>Indicates that the IGAP accounting principle has been considered. Source: Sula Vineyards

Figure 43

Net sales growth Cagr for private and public listed players						
(%)		FY11-14	FY11-19	FY11-21	FY14-19	FY20-21
Spirits	Diageo <sup>1</sup>	9.80	4.40	2.20	1.30	(13.20)
	Pernod Ricard <sup>1</sup>	na	na	na	10.30	(11.00)
	Radico Khaitan <sup>1</sup>	15.40	10.50	9.80	7.60	(0.40)
Beer	United Breweries <sup>1</sup>	11.40	9.80	3.30	8.90	(34.80)
Wine	Sula <sup>1</sup>	27.80	20.60	12.80	16.40	(13.70)
	Fratelli Wines <sup>2</sup>	na	na	na	37.80	1.70
	Grover Zampa <sup>2</sup>	na	na	na	19.10	(27.20)

<sup>1</sup>Indicates that the IND AS accounting principle has been considered. <sup>2</sup>Indicates that the IGAP accounting principle has been considered. Source: Sula Vineyards



Sula divested its 51% holding in PADPL for Rs29.69m in FY21

Business sold at Rs29.69m, with an impairment loss of Rs22.41m

About 92% of grape supply is secured with farmers

Flint bordo bottles



### Divestment of PADPL, a subsidiary dealing in beer trading

To strengthen its market position in the alcoholic beverages industry, the company acquired a 51% stake in Progressive Alcobev Distributors Limited (PADPL) on 18 November 2018 at a total consideration of Rs53.44m. In FY21, it divested its 51% holding for consideration of Rs29.69m to focus on its core own brand wine business and recognised Rs22.41m as impairment loss. Further, in accordance with the terms of the Progressive Alcobev 2021 SPA, Sula ceased its rights as a holding company of Progressive Alcobev in all respects from March 31, 2021.

Figure 44

#### PADPL: Summary profit and loss

(Rsm)	FY20	FY21	YoY (%)
Revenue	1,035.62	607.88	(41)
as a % of gross revenue	19.79	14.42	
Ebitda	7.99	9.12	14
Ebitda margin (%)	0.8	1.5	

Source: Sula Vineyards

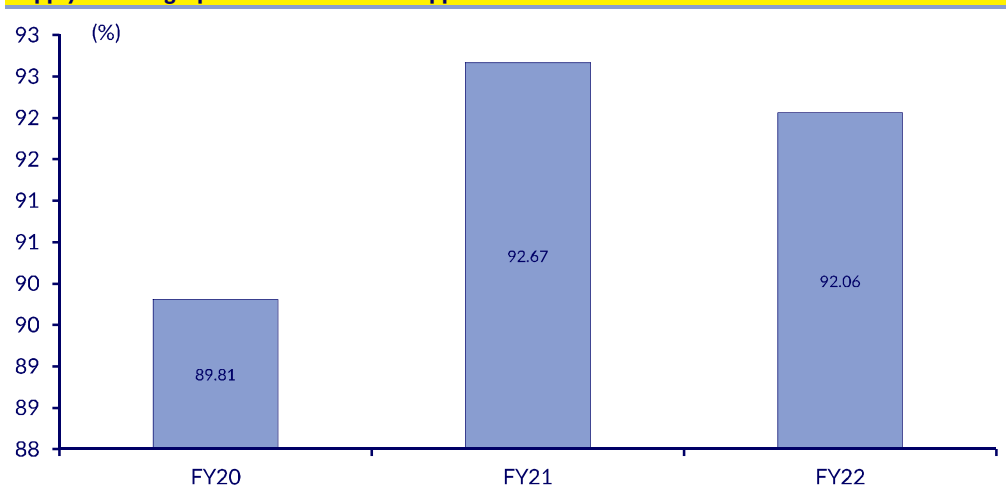
### Gross margin saw steady expansion

As highlighted in the section above, gross margin saw steady expansion as the company reduced its exposure to margin dilutive initiatives. Additionally, the vineyard has worked on efficiency improvements and savings in raw material and packaging costs. Here are some of the cost savings, which the company effected in FY21.

- ❑ **Raw material cost savings:** As an example, there was a decrease in purchases of ready (bulk) wine in FY21 from 2,069,920 litres at an average rate of Rs108 per bulk litre to 396,950 litre at average rate of Rs46.45 per bulk litre, resulting in savings of Rs61.55 per bulk litre.

Figure 45

#### Supply of wine grapes from contracted suppliers and farmers



Source: Sula Vineyards

- ❑ **Packing material cost saving:** In FY21, the company purchased 285,283 indigenously produced flint bordo bottles at the rate of Rs16 per bottle as compared to imported bottles purchased at the rate of Rs26.7 per bottle in FY20, resulting in savings in the packing material cost of approximately Rs11 per bottle.

Shifting to local flint bordo bottles helped slow packing materials cost growth

We expect gross margins to remain in the band of 69-70% over FY23-25CL

Employee costs rose 17.7% YoY in FY22 due to annual increments and increased share based payments

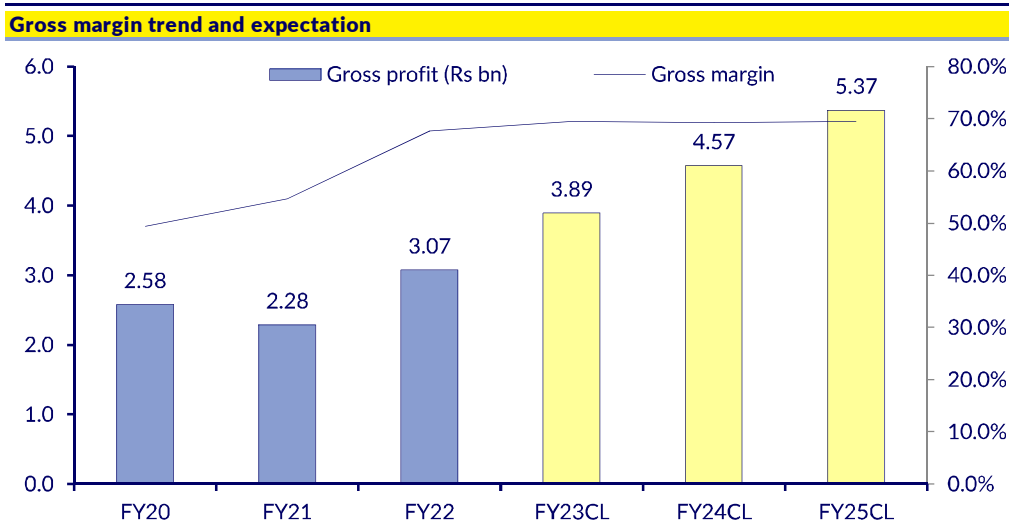
Figure 46

Cost of goods sold trend					
(Rsm)	FY20	FY21	YoY (%)	FY22	YoY (%)
Cost of materials consumed	1,092.81	669.12	(38.8)	1,114.18	66.5
- Raw materials	689.64	395.80	(42.6)	717.50	81.3
- Packing materials	403.17	273.32	(32.2)	396.68	45.1
Purchase of stock-in-trade	1,325.24	752.01	(43.3)	204.30	(72.8)
Changes in inventories of finished goods, work-in-progress and stock-in-trade	(143.17)	153.69	(207.3)	(147.00)	(195.6)
<b>COGS</b>	<b>2,274.88</b>	<b>1,574.82</b>	<b>(30.8)</b>	<b>1,171.48</b>	<b>(25.6)</b>
<b>Gross profit</b>	<b>2,577.53</b>	<b>2,284.58</b>	<b>(11.4)</b>	<b>3,072.64</b>	<b>34.5</b>
Gross margin (%)	53	59		72	

Source: Sula Vineyards

We expect gross margins for Sula to remain in the 69-70% range over FY23-25CL as it maintains its focus on higher margin businesses and looks to premiumize customers.

Figure 47



Source: CLSA, Sula Vineyards

### Higher employee costs for FY22, reflect ESOPs

Employee costs expanded 17.7% YoY in FY22 to Rs653m, driven by annual increments and increased share based payments. The company introduced an employee stock ownership plan (ESOP) in FY22 for all employees. This is contrary to FY21, when employee cost fell 15.6% YoY. In FY21, the company went through headcount rationalisation and utilised accumulated leave balance of employees against a forced lockdown, leading to a decrease in leave encashment. Considering that the increase in employee expenses as a % of revenue was a one-off, we expect employee expenses as a % of revenue to reduce to 13.5% in FY23 and gradually increase to 13.8% by FY25 as the company looks to increase marketing activities for which it would require a bigger team.

The FY21 dip in employee costs resulted from a headcount rationalisation

We expect employee benefit expense to reduce to 13.5% of revenue in FY24 and increase slightly to 13.8% in FY25

Sula reduced selling, distribution and marketing spending 4.6% YoY in FY22

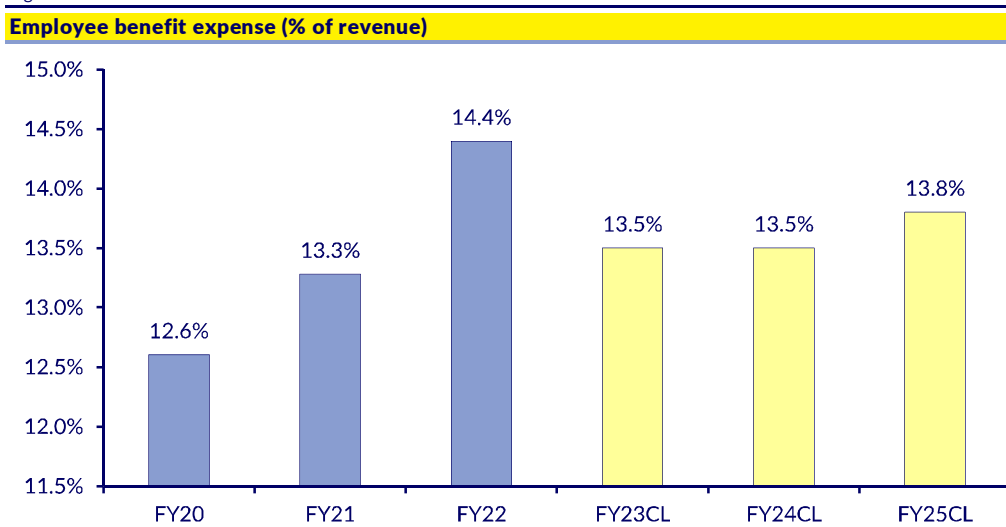
Marketing optimisation efforts and reduced commission helped offset increased wine tourism business marketing

Figure 48

Employee costs					
(Rsm)	FY20	FY21	YoY (%)	FY22	YoY (%)
Employee benefits expense	657.44	555.01	(15.6)	653.40	17.7
as a % of gross revenue	12.6	13.3		14.4	
- Salaries, wages and bonus	600.84	510.29	(15.1)	580.57	13.8
- Gratuity	16.13	17.85	10.7	19.53	9.4
- Share based payment expenses	2.33	4.10	76.0	18.61	353.9
- Contribution to provident and other fund	20.92	12.45	(40.5)	18.03	44.8
- Staff welfare	17.22	10.32	(40.1)	16.66	61.4

Source: Sula Vineyards

Figure 49



Source: CLSA, Sula Vineyards

### Selling, distribution and marketing expense curtailed in FY22

The company reduced spending by 4.6% YoY in FY22. The company focused on improving efficiency by optimising sales promotion activities in the corporation market and reduced commissions paid to intermediaries, which was, in turn, offset by an increase in marketing expenses for the promotion of its wine tourism business and other marketing activities. In FY21, a 11% reduction is attributed to lower marketing expense (down 51.5% YoY). While we expect selling, distribution and marketing expense to remain at 9.8% of revenues in FY23, we see a steady 40bps expansion over the next two years to reach 10.6% by FY25 as category development becomes a priority.

Figure 50

Selling, distribution and marketing expenses					
(Rsm)	FY20	FY21	YoY (%)	FY22	YoY (%)
Selling, distribution and marketing expenses	524.59	466.95	(11.0)	445.45	(4.6)
as a % of gross revenue	10.1	11.2		9.8	
- Sales promotion expense	331.55	342.04	3.2	324.02	(5.3)
- Commission expense	106.55	82.97	(22.1)	70.95	(14.5)
- Marketing expense	86.49	41.94	(51.5)	50.48	20.4

Source: Sula Vineyards

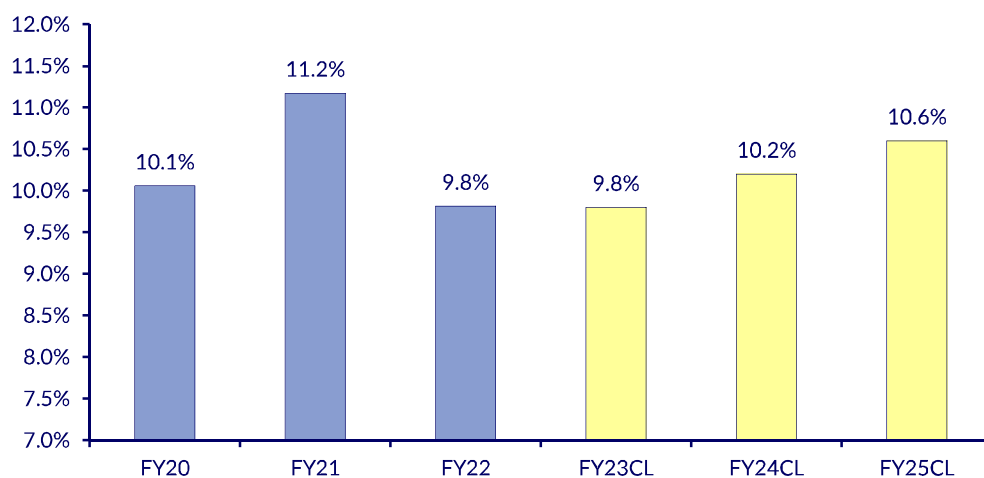
We expect an increase in selling, distribution and marketing expenses as the company focusses on category development

In FY22, other overheads expanded 28.7% YoY due to top-line recovery

Other expenses growth is driven by rising outlay on consumables, restaurant expenses and taxes

Figure 51

#### Selling, distribution and marketing expenses (% of revenue)



Source: CLSA, Sula Vineyards

#### Other expenses returned with recovery in top line in FY22

In FY22, other overheads expanded 28.7% YoY, driven by increase in wine processing activity in FY22 resulting in increase in consumables, chemicals, stores and spares and a rise in power and fuel expenses. Rates and taxes increased on account of stamp duty paid on acquisition of the brand and assets of York Winery Private Limited (through subsidiary ASPL) while resort and restaurant maintenance expenses increased with a surge in room occupancy rates.

We expect other expenses as a % of revenue to show a gradual reduction from 18.5% in FY22 to 17.8% by FY25CL.

Figure 52

#### Other expenses

(Rsm)	FY20	FY21	YoY (%)	FY22	YoY (%)
Other expenses	906.34	653.23	(27.9)	840.92	28.7
as a % of gross revenue	17.4	15.6		18.5	
- Restaurant expenses	46.45	27.46	(40.9)	62.49	127.6
- Resort maintenance expenses	39.57	28.74	(27.4)	46.51	61.8
- Sula-fest expense	36.35	nil		nil	
- Freight and handling charges	110.16	80.07	(27.3)	90.57	13.1
- Travelling and conveyance	83.59	29.01	(65.3)	34.35	18.4
- Repairs and maintenance	66.31	63.76	(3.8)	82.25	29.0
- Rent	48.05	27.18	(43.4)	11.53	(57.6)
- Power and fuel	49.48	52.35	5.8	76.05	45.3
- Consumables, stores and spares consumed	101.73	64.35	(36.7)	99.38	54.4
- Rates and taxes	105.45	91.87	(12.9)	118.58	29.1
- Others	219.20	188.44	(14.0)	219.21	16.3

Source: Sula Vineyards

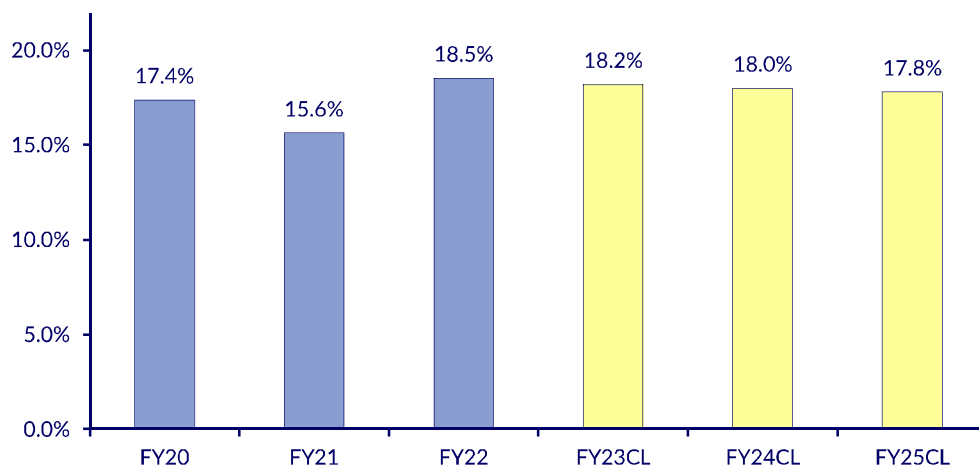
Other expenses is expected to reduce to 17.8% by FY25

Top-line cost rationalisation led to Ebitda margin expansion

Sula has the highest Ebitda growth among wine peers and top alcohol players

Figure 53

#### Other expenses (% of revenue)



Source: CLSA, Sula Vineyards

#### Ebitda margin shining strong at 25.57% for FY22

The net effect for top-line strategy and cost rationalisation is reflected in a sharp expansion in the Ebitda margin profile of the company.

Figure 54

#### Ebitda

(Rsm)	FY20	FY21	YoY (%)	FY22	YoY (%)
Ebitda (before other non-operating income)	489.16	609.39	24.6	1,132.87	85.9
Ebitda margin (%)	9.38	14.58		24.96	
Other income	15.77	35.73	126.6	27.84	(22.1)
Ebitda (including other income)	504.93	645.12	27.8	1,160.71	79.9
Ebitda margin (%)	9.68	15.44		25.57	

Note: Ebitdae margin calculated on gross revenue from operations. Ebitdae: Earnings before Interest, Taxes, Depreciation and Amortization Expenses and Exceptional Items. Source: Company

Figure 55

#### Ebitda Cagr for private and public listed players

(%)		FY11-14	FY11-19	FY11-21	FY14-19	FY20-21
Spirits	Diageo <sup>1</sup>	na	3.70%	0.20%	na	(34.40%)
	Pernod Ricard <sup>1</sup>	na	na	na	11.20%	(24.70%)
	Radico Khaitan <sup>1</sup>	8.50%	11.10%	10.50%	12.60%	10.00%
Beer	United Breweries <sup>1</sup>	15.20%	14.30%	(0.30%)	13.80%	(56.60%)
Wine	Sula <sup>1</sup>	19.00%	17.70%	12.40%	17.30%	23.90%
	Fratelli Wines <sup>2</sup>	na	na	na	na	na
	Grover Zampa <sup>2</sup>	na	na	na	na	na

<sup>1</sup>Indicates that the IND AS accounting principle has been considered. <sup>2</sup>Indicates that the IGAP accounting principle has been considered. Source: Sula Vineyards



Other non-operating  
income increased 126.6%  
YoY in FY21

Finance costs fell 31% YoY  
in FY22 . . .

. . . after having risen 1.5%  
in FY21 on higher short-  
term borrowing

In FY21, subsidiary profits  
were applied against past  
business losses, leading to  
lower tax rate

Effective tax rate up to 25%  
in FY22

### Other non-operating items

Other non-operating income increased 126.6% YoY in FY21, driven by: gain from fair valuation of non-current financial assets amounting to Rs12.82m; interest on income tax refund of Rs4.28m; rental income of Rs2.4m from leasing of property; and recognition of gains of Rs2.31m on account of cancellation of lease agreement under Ind AS 116 due to change in scope of lease. On a high base, in FY22, other non-operating income declined 22.1%.

Finance costs declined 31% YoY in FY22, primarily due to repayment of borrowings of Rs723.25m in FY22 and the company being able to negotiate interest rates for other borrowings. In FY21, finance costs rose 1.5% as a result of higher short-term borrowings to support working capital.

Figure 56

Other non-operating line items					
	FY20	FY21	YoY (%)	FY22	YoY (%)
Other non-operating income	15.77	35.73	126.6	27.84	(22.1)
- Interest Income	7.09	26.5	273.8	21.53	(18.8)
- Others	8.68	9.23	6.3	6.31	(31.6)
Finance Costs	328.93	333.86	1.5	229.23	(31.3)
- Interest expense	309.46	316.52	2.3	214.2	(32.3)
- Interest rate (%)	8.4	10.5		9.4	
- Others	19.47	17.34	(10.9)	15.03	(13.3)

Source: Sula Vineyards

### With profitability across entities, effective tax rate at 25%

In FY21, profit generated by subsidiary company were set off against business losses from earlier years, leading to a lower tax rate. However, since all entities reported profit in FY22, effective tax rate stood at c.25%.

Figure 57

Reconciliation of tax			
	FY20	FY21	FY22
Restated profit/ (loss) before income tax	(173.97)	31.86	695.37
Applicable income tax rate	25.17%	25.17%	25.17%
Computed expected tax expense / (credit)	(43.79)	8.02	175.02
Effect of expenses that are not deductible for determining taxable profits	2.64	2.24	1.94
Effect of deferred tax asset written-off	0	0	5.32
Effect of deferred tax assets not created on loss during the year/ in earlier years of subsidiaries	14.15	(6.18)	(4.32)
Effect of difference in tax rates of subsidiaries	(0.41)	0	0
Impact of change in tax rate	13.12	0	0
Tax Impact on conso adjustment	(0.28)	(2.36)	(3.98)
Income tax expense charged/ (credited) to the Restated Consolidated Statement of Profit and Loss	(14.57)	1.72	173.98
Effective tax rate	8.4%	5.4%	25.0%

Source: Sula Vineyards

Figure 58

Profit and Loss Account						
	FY20	FY21	FY22	FY23CL	FY24CL	FY25CL
Gross revenue from operations	5,216.34	4,179.6	4,539.2	5,597.2	6,607.5	7,725.7
of which government grants	290.21	273.4	353.5	414.2	462.5	509.9
% of gross revenue from operations	5.6%	6.5%	7.8%	7.4%	7.0%	6.6%
Excise duty on sales	363.9	320.2	295.0	391.8	449.3	502.2
% of revenue	7.0%	7.7%	6.5%	7.0%	6.8%	6.5%
Net revenue from operations	4,852.4	3,859.4	4,244.2	5,205.4	6,158.2	7,223.5
COGS	2,274.9	1,574.8	1,171.5	1,315.4	1,585.8	1,854.2
% of gross revenue	44%	38%	26%	24%	24%	24%
<b>Gross profit</b>	<b>2,577.5</b>	<b>2,284.6</b>	<b>3,072.7</b>	<b>3,890.1</b>	<b>4,572.4</b>	<b>5,369.3</b>
Gross margin	49%	55%	68%	70%	69%	70%
Employee benefits expense	657.4	555.0	653.4	755.6	892.0	1066.1
as a % of gross revenue	12.6%	13.3%	14.4%	13.5%	13.5%	13.8%
Selling, distribution and marketing expense	524.6	467.0	445.5	548.5	674.0	818.9
as a % of gross revenue	10.1%	11.2%	9.8%	9.8%	10.2%	10.6%
Other expenses	906.34	653.23	840.92	1018.7	1189.4	1375.2
as a % of gross revenue	17.4%	15.6%	18.5%	18.2%	18.0%	17.8%
<b>Ebitda</b>	<b>489.2</b>	<b>609.4</b>	<b>1,132.9</b>	<b>1,567.2</b>	<b>1,817.1</b>	<b>2,109.1</b>
Ebitda margin	9.4%	14.6%	25.0%	28.0%	27.5%	27.3%
Depreciation and Amortisations	350.0	257.0	236.1	256.5	289.0	314.0
% of opening gross fixed assets and right to use assets	8.6%	6.5%	5.4%	5.0%	5.0%	5.0%
<b>Ebit</b>	<b>139.19</b>	<b>352.42</b>	<b>896.80</b>	<b>1,310.8</b>	<b>1,528.1</b>	<b>1,795.2</b>
Ebit margin	2.7%	8.4%	19.8%	23.4%	23.1%	23.2%
Other non-operating income	15.8	35.7	27.8	31.8	35.8	39.8
Interest Income	7.09	26.5	21.53	25.53	29.53	33.53
Others	8.7	9.2	6.3	6.3	6.3	6.3
Finance Costs	328.9	333.9	229.2	221.1	248.1	257.1
Interest expense	309.5	316.5	214.2	206.0	233.0	242.0
Interest rate (%)	8.4%	10.5%	9.4%	9.0%	9.0%	9.0%
Others	19.5	17.3	15.0	15.0	15.0	15.0
<b>PBT</b>	<b>(174.0)</b>	<b>54.3</b>	<b>695.4</b>	<b>1,121.5</b>	<b>1,315.9</b>	<b>1,577.9</b>
Total Tax	(14.6)	1.7	174.0	280.4	329.0	394.5
Tax rate	8%	3%	25%	25%	25%	25%
Adjusted PAT	(159.4)	52.6	521.4	841.2	986.9	1,183.4
Exceptionals (Impairment loss on disposal group classified as held for sale)		22.4				
Reported PAT	(159.4)	30.2	521.4	841.2	986.9	1,183.4
Number of shares (m)	20.2	20.2	84.2	84.2	84.2	84.2
<b>EPS</b>		<b>1.5</b>	<b>6.2</b>	<b>10.0</b>	<b>11.7</b>	<b>14.1</b>

Source: CLSA, Sula Vineyards

While the company has reported >29% Ebitda margins in the 9 months of FY23, we expect overall Ebitda margins for FY23 to come in at 28% (as Q3 is the strongest month for sales and there should be a decline in Ebitda margins in Q4). This improvement in Ebitda margins is due to premiumisation and operational efficiencies. We expect Ebit margins to remain near 23% from FY23-25CL. With the company having already reported an EPS of Rs 8.5 per share in nine months of FY23, we expect a total EPS of Rs10 in FY23 and expect a 17% growth for FY24CL and a 20% growth for FY25CL.

Sula had Rs2.29bn in gross and Rs1.8bn in current borrowings as of March-22

Total debt outstanding at Rs2.3bn as of Mar-22

We expect total borrowings for Sula to increase to 2.69bn by FY25

The bulk of short-term borrowing is for working capital demand loans

## Balance sheet: Return profile improves with margin

In the last three years, the company has focused on reducing borrowing position (largely now for working capital needs), improving return profile (RoCE >20% now) and preparing for higher consumer demand for wines (reflect in higher inventory days of 449 days as at Mar'22).

## Borrowings largely comprises of working capital loans

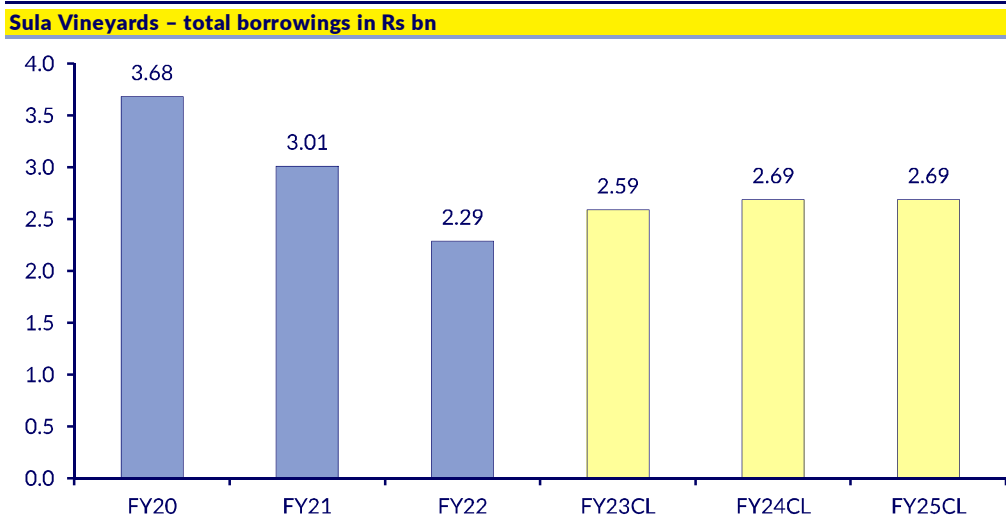
As at Mar'22, the company has gross borrowings of Rs2.29bn, of which current borrowing is at Rs1.8bn. Of the Rs1.81bn short term borrowings, Rs1.29bn is towards working capital demand loans. We expect total borrowings to increase to Rs 2.69bn by FY25CL. However, Net Debt/Equity would improve from 0.53x in FY22 to 0.32x in FY25CL.

Figure 59

Sula: Borrowings			
(Rsm)	FY20	FY21	FY22
Long-term borrowings	788.24	591.19	480.67
<b>Short-term borrowings</b>	<b>2,894.18</b>	<b>2,421.37</b>	<b>1,808.64</b>
- Working capital demand loans	2,141.30	1,671.50	1,287.50
- Current maturities of long term borrowings	198.37	400.09	339.97
- Cash credit facilities	197.16	1.44	0
- Buyers credit	54.25	50.62	0
<b>Total borrowings</b>	<b>3,682.42</b>	<b>3,012.56</b>	<b>2,289.31</b>

Source: Sula Vineyards

Figure 60



Source: CLSA, Sula Vineyards

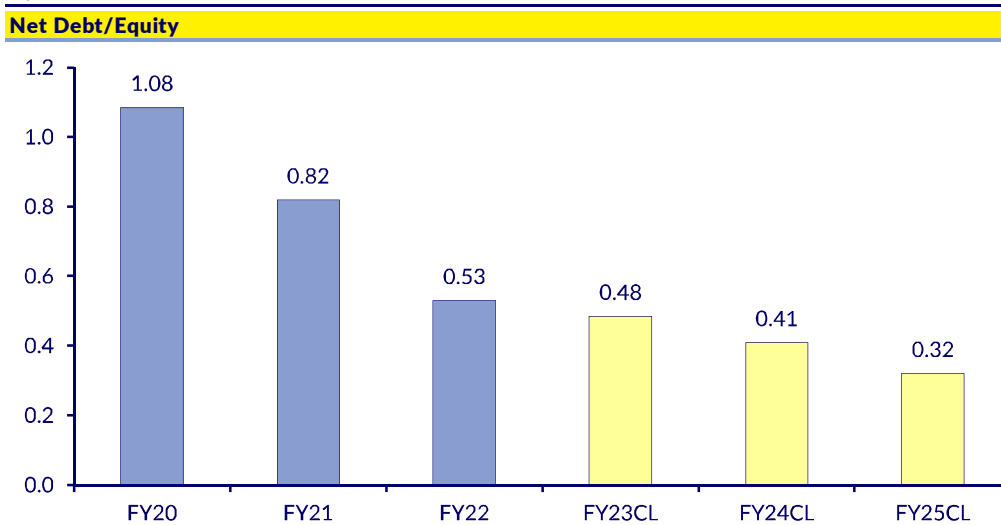
Figure 61

Borrowing sanctioned and outstanding position		
(Rsm)	Sanctioned as at Mar 22	Outstanding as at Mar 22
Term loans	1,319.60	820.64
Working capital loans	3,194.50	1,620.55
- Fun based working capital loans	2,590.00	1,468.30
- Non fund based working capital loans	604.50	152.25
Bank Guarantees	122.00	25.31
<b>Total</b>	<b>4,636.10</b>	<b>2,466.50</b>

Source: Sula Vineyards

Net debt to equity is expected to improve to 0.32x by FY25CL

Figure 62



Source: CLSA, Sula Vineyards

### Inventory days high in wine industry as there is only one season

Owing to the nature of winemaking, which only has one cycle of raw material production a year, inventory days are high compared to other alcoholic beverage categories such as spirits and beers.

While bottled wine typically has low shelf life, Dia cans have a shelf life of twelve months. Dia contributed 0.4% to the gross billing (a measurement of the total volume of amounts billed by the company to its customers for products) of its manufactured wines during FY22.

Figure 63

Inventory days			
(days)	FY19	FY20	FY21
Sula <sup>1</sup>	285	381	465
Fratelli Wines <sup>2</sup>	507	765	595
Grover Zampa <sup>2</sup>	479	592	878

<sup>1</sup> Indicates that the IND AS accounting principle has been considered; <sup>2</sup> Indicates that the IGAP accounting principle has been considered. Note: Inventory days = Average Inventory / COGS x 365. Source: Sula Vineyards

Figure 64

Inventories position			
(Rsm)	FY20	FY21	FY22
<b>Inventories</b>	<b>1,713.40</b>	<b>1,439.33</b>	<b>1,622.62</b>
- Raw materials	5.70	0.00	0.00
- Work-in-progress / Semi-finished goods	1,090.64	1,045.99	1,202.42
- Finished goods	206.22	150.87	212.69
- Stock-in-trade	297.77	157.30	86.46
- Consumables, stores and spares	46.18	27.23	42.91
- Packing material	66.89	57.94	78.14

Source: Sula Vineyards

While bottled wines have low shelf life, Dia cans have a 12M shelf life

Wine category has higher inventory days than spirits and beers

... with the bulk of inventories being work-in-progress

Higher inventory days for Sula leads to higher working capital requirements

### Higher inventory days led to higher need of working capital

Its working capital day requirement has seen a steady increase, given a constant increase in inventory position, in view of higher demand projections. The company believes underestimated demand will lead to loss of business. We expect payable days to be 200, inventory days to be 440 and receivable days to improve marginally to 98 over FY23-25CL.

Figure 65

Working capital position (days)						
	FY20	FY21	FY22	FY23CL	FY24CL	FY25CL
Receivable days <sup>1</sup>	115	125	98	100	99	98
Inventory days <sup>2</sup>	252	358	449	440	440	440
Payable days <sup>3</sup>	130	166	200	200	200	200

Source: CLSA, Company

<sup>1</sup> Receivable days is calculated based on average trade receivables (i.e. opening trade receivables plus closing trade receivables divided by 2) divided by revenue from operations \* 365 days.

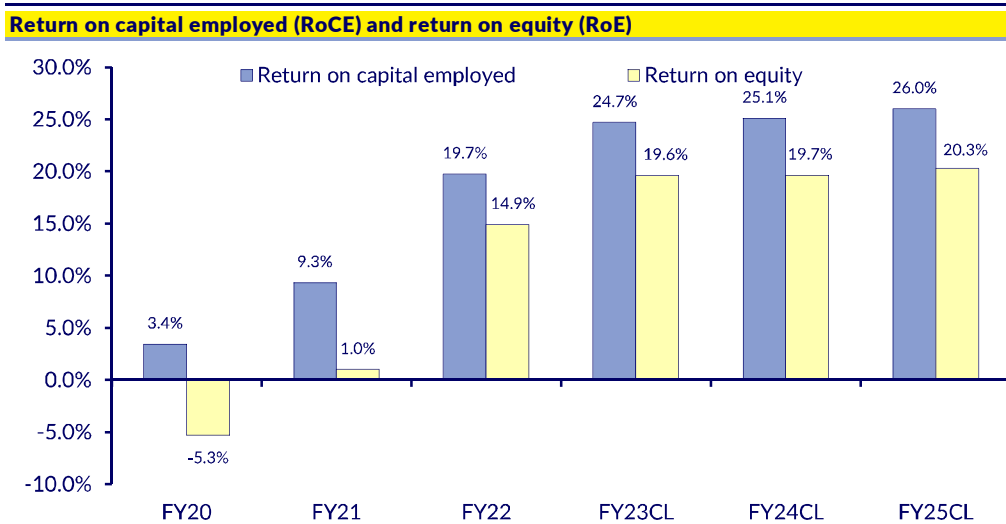
<sup>2</sup> Inventory days is calculated based on average inventory (i.e. opening inventory plus closing inventory divided by 2) divided by the sum of (cost of materials consumed plus purchase of stock-in-trade plus changes in inventories of finished goods, work-in-progress and stock-in-trade plus consumables, stores and spares consumed) \* 365 days

<sup>3</sup> Payable days is calculated based on average trade payables (i.e. opening trade payables plus closing trade payables divided by 2) divided by the sum of (cost of materials consumed plus purchase of stock-in-trade plus changes in inventories of finished goods, work-in-progress and stock-in-trade).

### Return profile improved with expansion in margin

Sula's return profile has seen accelerated improvement, reflecting better margin delivery. We expect return on capital employed to increase to 26% while ROE is expected to cross 20% by FY25CL.

Figure 66



Source: CLSA, Sula Vineyards

We expect ROCE to reach 26% and ROE to reach 20.3% by FY25



Sula has a relatively higher return profile compared to other Indian wine makers

Figure 67

Return ratios			
(%)	FY19	FY20	FY21
Return on equity			
Sula <sup>1</sup>	2.90	(4.30)	0.70
Fratelli Wines <sup>2</sup>	0.40	(7.10)	(7.40)
Grovers Zampa <sup>2</sup>	29.80	(3.40)	(7.80)
Return on capital employed			
Sula <sup>1</sup>	12.6	3.5	9.3
Fratelli Wines <sup>2</sup>	1.3	(7.1)	(7.7)
Grovers Zampa <sup>2</sup>	(2.2)	(6.0)	(6.9)

<sup>1</sup> Indicates that the IND AS accounting principle has been considered; <sup>2</sup> Indicates that the IGAP accounting principle has been considered. Source: Company

### Other long-term assets

Its other long-term assets largely consists of government grants receivables, loan given to employees and security deposits.

Figure 68

Other long-term assets			
(Rsm)	FY20	FY21	FY22
Other long-term assets	331.62	267.96	257.85
Loans (to employees)	11.12	10.90	19.21
Other financial assets	188.90	218.24	209.68
- Govt Grants receivables	152.89	189.75	163.72
- Security deposits	28.25	27.97	29.54
- Others	7.76	0.52	16.42
Deferred tax assets (net)	0.42	0.00	0.00
Non-current tax assets (net)	87.61	1.39	2.11
Other non-current assets	43.57	37.43	26.85

Source: Sula Vineyards

Govt grants receivables, loans to employees and security deposits

Figure 69

Balance Sheet						
Balance Sheet	FY20	FY21	FY22	FY23CL	FY24CL	FY25CL
Equity share capital	150.4	150.8	157.2	157.2	157.2	157.2
Other equity	2849.0	2896.6	3795.4	4468.3	5257.8	6086.3
Equity attributable to owners of the parent	2999.5	3047.4	3952.6	4625.5	5415.0	6243.5
Non-controlling Interest	24.0					
<b>Total Equity</b>	<b>3023.5</b>	<b>3047.4</b>	<b>3952.6</b>	<b>4625.5</b>	<b>5415.0</b>	<b>6243.5</b>
Long-term borrowings	788.2	591.2	480.7	580.7	580.7	580.7
Short-term borrowings	2894.2	2421.4	1808.6	2008.6	2108.6	2108.6
<b>Total borrowings</b>	<b>3682.4</b>	<b>3012.6</b>	<b>2289.3</b>	<b>2589.3</b>	<b>2689.3</b>	<b>2689.3</b>
Long term	186.9	100.1	62.4	52.4	42.4	32.4
Short term	58.1	39.0	47.4	47.4	47.4	47.4
Lease liabilities	245.0	139.0	109.8	99.8	89.8	79.8
Provisions	81.5	99.6	19.9	19.9	19.9	19.9
Deferred tax liabilities (net)	175.5	159.7	168.6	168.6	168.6	168.6
<b>Total liabilities</b>	<b>7207.9</b>	<b>6458.3</b>	<b>6540.3</b>	<b>7503.2</b>	<b>8382.7</b>	<b>9201.1</b>
Gross block	3830.5	3816.4	4279.1	5129.1	5779.1	6279.1
Accumulated Depreciation	568.0	676.2	835.0	1091.4	1380.4	1694.3
Property, plant and equipment (net block)	3262.5	3040.2	3444.1	4037.7	4398.7	4584.8
Right-of-use assets	236.9	125.3	93.0	60.0	30.0	0.0
Capital work-in-progress	1.2	1.1	9.8	9.8	9.8	9.8
Goodwill	26.9	0.1	8.5	8.5	8.5	8.5
Other intangible assets	20.1	12.0	66.8	66.8	66.8	66.8
<b>Total Non-current assets</b>	<b>3547.7</b>	<b>3178.6</b>	<b>3622.3</b>	<b>4182.8</b>	<b>4513.8</b>	<b>4669.9</b>
Investments	0.8	0.0	0.0	0.0	0.0	0.0
Other long term assets	331.6	268.0	257.9	257.9	257.9	257.9
Inventories	1713.4	1439.3	1622.6	1585.6	1911.7	2235.2
Receivables	1,517.4	1,236.2	1,093.9	1,426.1	1,670.3	1,939.5
Cash and cash equivalents	374.7	407.9	102.0	255.5	382.0	598.8
Bank Balance	28.0	109.7	93.9	93.9	93.9	93.9
Loans (given to employees)	23.9	11.4	11.5	11.5	11.5	11.5
Other financial assets	651.7	468.9	736.2	736.2	736.2	736.2
Other assets	121.2	75.2	45.3	45.3	45.3	45.3
<b>Total current assets</b>	<b>4,430.3</b>	<b>3,748.5</b>	<b>3,705.4</b>	<b>4,154.2</b>	<b>4,850.9</b>	<b>5,660.3</b>
Trade payables	826.8	583.4	674.5	720.7	868.9	1016.0
Other financial liabilities	173.3	144.7	142.3	142.3	142.3	142.3
Other current liabilities	83.4	168.1	186.9	186.9	186.9	186.9
Provisions	19.0	13.0	27.2	27.2	27.2	27.2
Current tax liabilities (net)	0.0	12.7	14.5	14.5	14.5	14.5
<b>Total current liabilities</b>	<b>1102.5</b>	<b>921.8</b>	<b>1045.4</b>	<b>1091.6</b>	<b>1239.8</b>	<b>1386.9</b>
Net current assets	3327.8	2826.7	2660.1	3062.5	3611.0	4273.4
Asset held for sale (net)		185.0				
<b>Total Assets</b>	<b>7207.9</b>	<b>6458.3</b>	<b>6540.3</b>	<b>7503.2</b>	<b>8382.7</b>	<b>9201.1</b>

Source: CLSA, Sula Vineyards

### Improved profitability helping cash generation

### Cashflow statement: Steady state helps positive FCF

In the wine business since 2003, Sula has created strong backend capability and is looking to develop and drive penetration of wines in the domestic market. From a cashflow perspective, enhanced profitability on the back of an improving margin profile helped operating cash, although it was suppressed in FY22 by higher working capital requirement. Capex needs are largely to fund expansion of winery capacity and tourism.

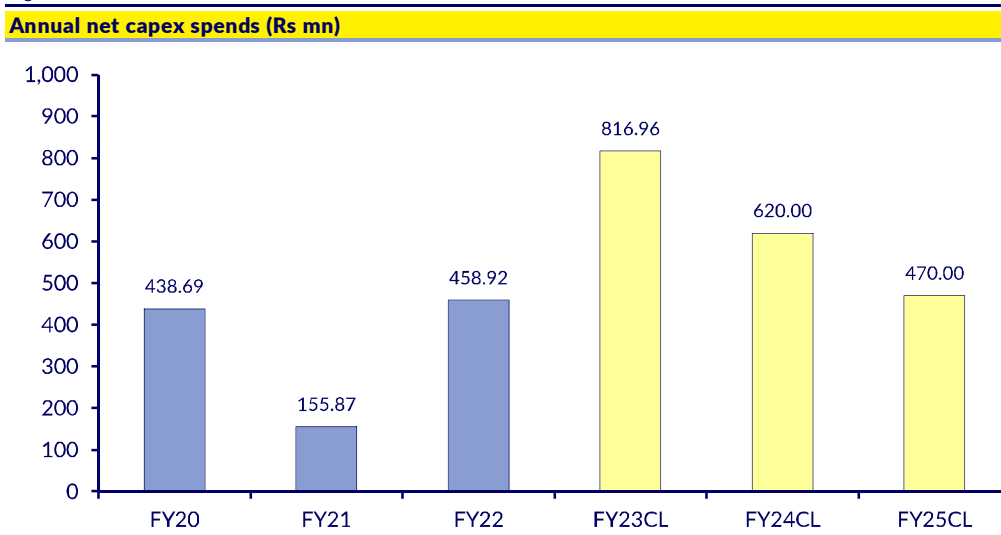
We estimate a cumulative net capex of c.1.9bn over FY23-25CL

Sula acquired York Winery in FY22 for Rs171.65m

### Capex spending for expansion of winery capacity and wine tourism

Sula's annual capital expenditure (including additions through business combinations) has been used to expand winery capacity, wine tourism and other sustainable capital expenditures. The company expects capex in the future to be primarily used for further expansion of winery capacity and wine tourism. We expect a cumulative net capex of c. Rs1.9bn over FY23-25CL.

Figure 70



Source: CLSA, Sula Vineyards

### Acquisition of York Winery Private Limited

During FY22, the company through its wholly owned subsidiary, Artisan Spirits Private Limited, acquired the business operations of York Winery Private Limited ('YWPL'), together with all the brands, infrastructures in relation to the winery and as a going concern on a slump sale basis for a total consideration of Rs171.65m (Cash consideration of Rs161.65m and deferred consideration of Rs10m payable after realisation of certain assets acquired).

York Winery is engaged in the business of manufacturing and sale of domestic wines from its winery in Nasik, India. It also has small set up for tasting room and restaurant within winery. The acquisition will help the Group in expanding the market share in Maharashtra and other states. The wine tourism at the winery will help in creating awareness about the wine which will in turn boost the growth in the wine market. With net identifiable assets and liability at fair value at Rs16.22m, the company has recognised excess payment of Rs8.43m as Goodwill on its balance sheet.

We estimate a free cash flow generation of Rs1.4bn over FY23-25CL

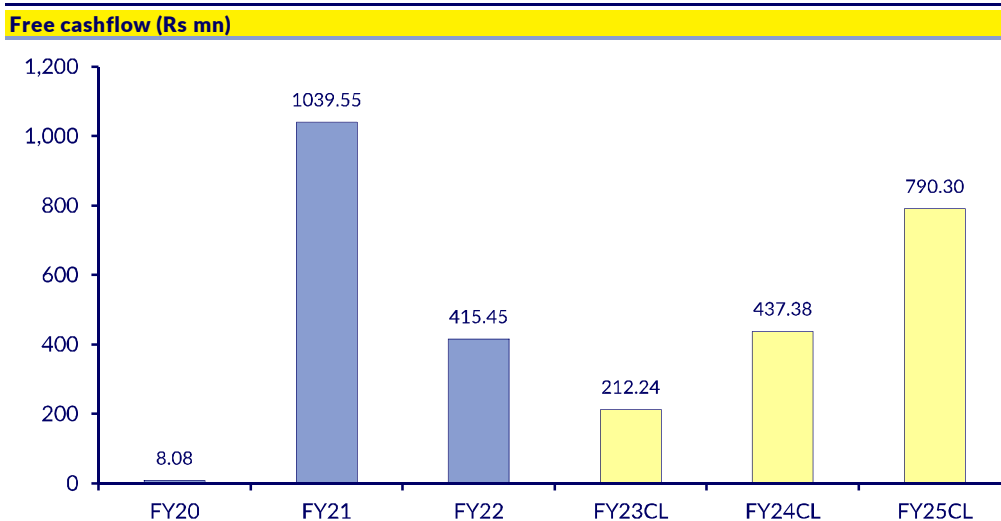
In FY22, the company paid total dividend of Rs4.9/share

We expect cumulative dividends of c.0.7bn over FY23-25CL

### Free cash generation remains positive

Compared to free cash generation of Rs1bn for FY21, Sula's free cash generation reduced to Rs415m in FY22. This is primarily a factor of higher working capital requirement in FY22, increased capital expenditure for FY22 and tax outgo for FY22 vs inflow for FY21. We expect a cumulative free cash flow of Rs1.4bn over FY23-25CL

Figure 71

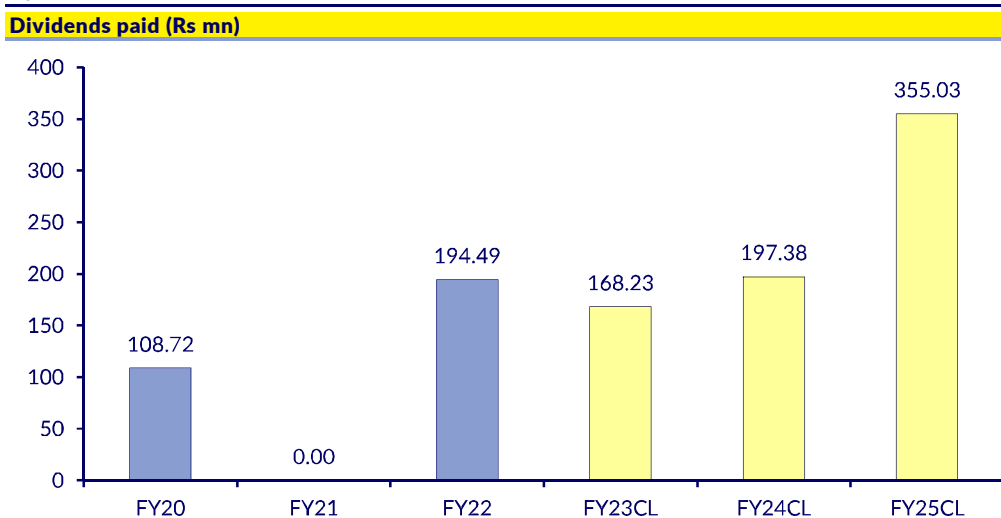


Source: CLSA, Sula Vineyards

### Dividend payout expected to reduce

In FY22, the company paid total dividends of Rs4.9/share, comprised of a Rs2.5 interim and Rs2.4 final dividend per share, the payout ratio stood at 72%. The company refrained from paying dividends amid Covid in FY21, but it paid Rs0.6/share for FY20 (adjusting for 5:1 split; reported dividend of Rs3/share for FV of Rs10). We expect the payout ratio to reduce as the company invests more in future growth and category development.

Figure 72



Source: CLSA, Sula Vineyards

Figure 73

Cash flow statement						
	FY20	FY21	FY22	23CL	24CL	25CL
Restated profit / (loss) before tax	(174.0)	31.9	695.4	1,121.5	1,315.9	1,577.9
Depreciation and amortisation	350.0	257.0	236.1	256.5	289.0	314.0
Interest expense	309.5	316.5	214.2	206.0	233.0	242.0
Interest income	(1.6)	(6.8)	(43.0)	(25.5)	(29.5)	(33.5)
Other non-operating and non-cash items	59.3	44.5	81.0			
Operating profit before working capital changes	543.1	643.1	1,183.6	1,558.5	1,808.3	2,100.4
Decrease in trade receivables	243.0	165.5	163.8	(332.2)	(244.2)	(269.2)
Decrease/ (Increase) in inventories	(141.3)	209.3	(146.5)	37.0	(326.0)	(323.5)
Decrease/ (Increase) in current/ non-current financial and other assets	(15.4)	208.7	(206.8)	-	-	-
(Decrease)/ Increase in trade payables and other financial/ other liabilities	(68.5)	(101.6)	46.9	46.3	148.2	147.0
Adjustment for working capital	17.8	482.0	(142.6)	(248.9)	(422.0)	(445.6)
Cash generated from operations	561.0	1,125.0	1,041.0	1,309.6	1,386.4	1,654.8
Tax paid	(114.2)	70.4	(166.7)	(280.4)	(329.0)	(394.5)
<b>Cash from operating activities</b>	<b>446.8</b>	<b>1,195.4</b>	<b>874.4</b>	<b>1,029.2</b>	<b>1,057.4</b>	<b>1,260.3</b>
Capex (net)	(438.7)	(155.9)	(458.9)	(817.0)	(620.0)	(470.0)
Free cash flow	8.1	1,039.6	415.5	212.2	437.4	790.3
Proceeds from sale of subsidiaries			29.7			
Payment in relation to purchase consideration on business combination			(161.7)			
Interest income	6.3	24.5	23.0	25.5	29.5	33.5
Others	(7.3)	(85.7)	(0.0)			
<b>Cash from investing activities</b>	<b>(439.7)</b>	<b>(217.1)</b>	<b>(567.9)</b>	<b>(791.4)</b>	<b>(590.5)</b>	<b>(436.5)</b>
Proceeds from issue of equity share capital (including securities premium)	14.9	15.6	561.1			
Borrowings (net)	760.5	(588.3)	(723.3)	300.0	100.0	-
Interest paid	(283.2)	(315.4)	(202.4)	(206.0)	(233.0)	(242.0)
Dividend paid	(108.7)	-	(194.5)	(168.2)	(197.4)	(355.0)
Repayment of lease liabilities	(50.2)	(56.8)	(53.5)	(10.0)	(10.0)	(10.0)
<b>Cash from financing activities</b>	<b>333.4</b>	<b>(944.8)</b>	<b>(612.5)</b>	<b>(84.3)</b>	<b>(340.4)</b>	<b>(607.1)</b>
Net change in cash	340.5	33.6	(306.1)	153.5	126.5	216.8
Opening cash	34.2	374.7	407.9	102.0	255.5	382.0
Cash and cash equivalents acquired in business combination	-	-	0.1			
Transfer to assets of a disposal group classified as held for sale	-	(0.4)	-			
<b>Closing cash</b>	<b>374.7</b>	<b>407.9</b>	<b>102.0</b>	<b>255.5</b>	<b>382.0</b>	<b>598.7</b>

Source: CLSA, Sula Vineyards



Sula is expected to have the highest revenue Cagr over FY22-25 among other alcohol beverage companies

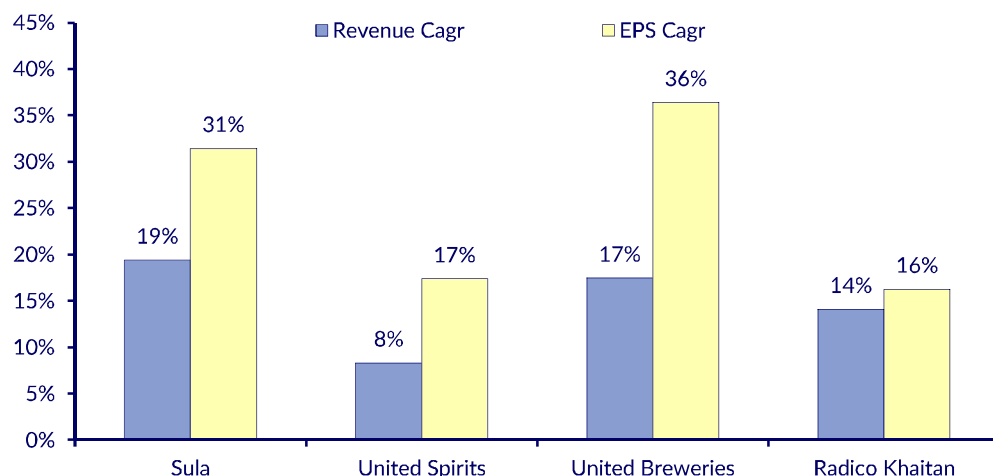
## Initiating coverage with BUY and TP of Rs475

We expect Sula to grow revenues at a Cagr of 19% over FY22-25CL with Ebitda growing by 1.86x during the same period. While Ebitda margins for Sula have increased significantly in FY23 so far (>29% in 9MFY23 vs 25% in FY22), we expect some moderation in Ebitda margins going ahead as Sula focusses more on developing the nascent wine category in India. In terms of EPS growth, we expect a 31% Cagr over FY22-25CL with high growth expected in FY23 (9 months FY23 EPS has shown a growth of 81% so far).

We initiate coverage with a BUY rating and Mar-24 TP of Rs475, based on a PE multiple of 34x on FY25CL earnings. Our target valuation multiple of 34x is based on giving a 15% discount to the average multiple for other listed alcohol beverage companies in India – United Spirits, United Breweries and Radico Khaitan. While wine as a category is very nascent and offers headroom for higher growth, we have not given Sula a multiple similar to other alcohol beverage companies as the market for wine currently is very small and we await some clear signals of category development.

Figure 74

### Revenue and EPS Cagr



Source: CLSA, Bloomberg estimates for companies not covered

Figure 75

### Alcohol beverage companies - peer comparison

Company	MCap		CMP	P/E			EV/EBITDA			RoE	
	(US\$ bn)	Currency		FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e
Sula Vineyards	0.3	INR	330	33.1	28.2	23.5	19.1	16.5	14.2	20%	20%
United Spirits*	6.7	INR	766	56.4	47.2	38.4	35.6	30.3	26.3	18%	17%
United Breweries*	4.6	INR	1,448	82.6	54.9	42.2	47.1	33.2	26.3	12%	15%
Radico Khaitan*	1.9	INR	1,177	67.6	46.9	35.4	41.3	28.7	22.8	11%	14%

Source: CLSA, \*Bloomberg estimates for companies not covered, Pricing as on 20<sup>th</sup> Mar'23

Figure 76

Key assumptions					
	FY21	FY22	FY23CL	FY24CL	FY25CL
Revenue (Rs mn)	4,180	4,539	5,597	6,608	7,726
Revenue growth	(19.9%)	8.6%	23.3%	18.0%	16.9%
Volume growth		24.0%	14.9%	11.5%	11.0%
Ebitda margin	14.6%	25.0%	28.0%	27.5%	27.3%
EPS (Rs)	1.5	6.2	10.0	11.7	14.1

Source: CLSA, Sula Vineyards

### Environmental, social and corporate governance (ESG)

Sula has a CLSA ESG score of 83.8 out of 100, higher than the sector average and the country average. Sula's board is made up of 6 members, with three independent directors. There is a 16.67% female participation with 1/6 members being a woman. On ESG, Sula has a score of 83.8 due to its focus on limiting water usage, reducing its carbon footprint, using solar energy and efficiently disposing waste. While being present in the alcoholic beverage category makes it a negative if consumers consume their products in excessive quantities, Sula is trying to mitigate that impact through its environmental and social initiatives like limiting water usage, efficiently disposing waste, using renewable energy and electric vehicles, and ensuring fair payments to the farming community which supplies raw materials to them. It has a long term targets of reducing the water usage per case from 56 litres in FY22 to 40 litres and increasing its solar contribution from 60% currently to 70%.

India is the third-largest alcoholic drink market after China and Russia

World alcohol consumption is 6.6L of pure alcohol per year for those above age 15

Recorded alcohol per capita consumption for CY20 is estimated at 4.8L

Developing nations prefer spirits while developed favour beer and wine

## Industry shift to low-alcohol drinks

The global alcoholic beverage market is dominated by low-alcohol drinks, comprised of beer and wine. By market size, India is the third-largest in the world at Rs2.5trillion (US\$33bn) as of FY20, after China and Russia. Beer and wine contribute about 8% to the overall alcohol consumption in India but wine's share is very little at 0.7%, or Rs19bn as of FY20. With multiple tailwinds in place, the wine industry in India should see a 14.4% Cagr over 2022-25F, according to Technopak.

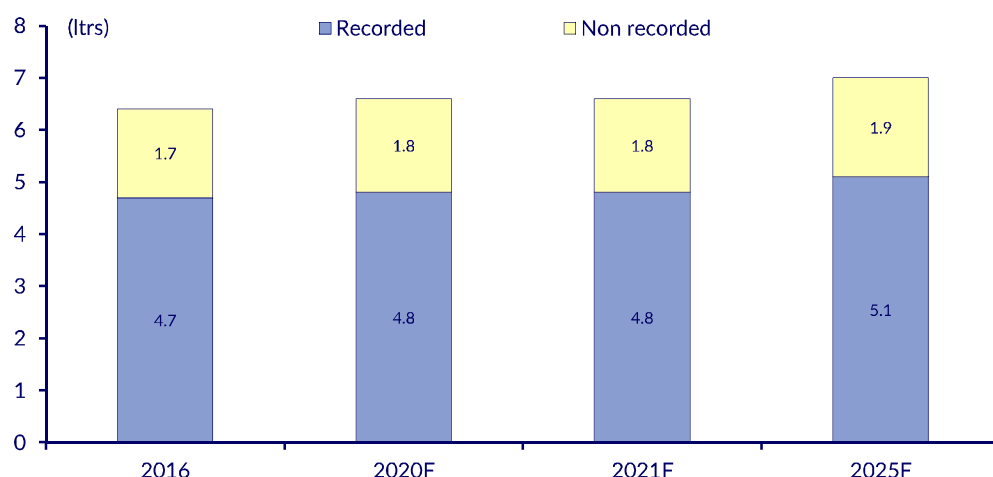
## Global alcohol consumption trend

Alcohol consumption is captured by WHO as a) total alcohol per capita consumption in litres of pure alcohol per person per year and b) alcohol consumption in grams of pure alcohol per person per day.

Alcohol consumption is further divided into recorded and unrecorded data. Recorded data is alcohol sales captured through excise departments in most countries.

Figure 77

### World per capita alcohol consumption in pure alcohol form for CY (in litres)

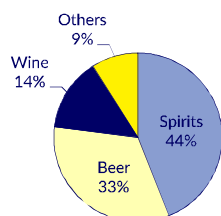


Source: Sula Vineyards, WHO: Global status report on alcohol and health 2018

## Spirits, beer and wine: Three major alcoholic consumption products

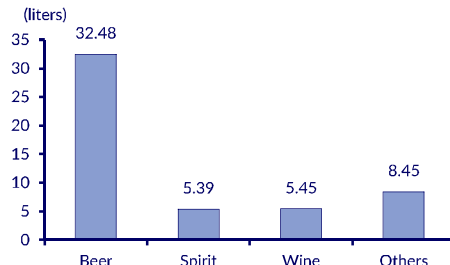
While the consumption of different alcoholic beverages has matured in developed economies, it is still experiencing a transition in developing countries. Spirits as a category are more popular in developing countries whereas beer and wine consumption is higher in developed countries. Overall comparisons show that beer is the largest category in terms of actual volume consumed. As per WHO, wine's contribution to total alcoholic beverages consumption has progressively risen from 8.6% in 2005 to 11.7% in 2016 and is estimated to reach 13.5% in 2020 according to recorded 100% pure alcohol consumption data.

Figure 78

**World per capita recorded alcohol consumption CY21 (in litres) - Contribution to consumption in pure alcohol**


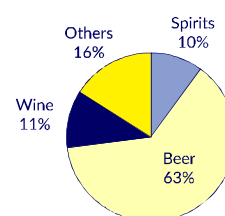
Note: World per capita recorded alcohol consumption. Source: Sula Vineyards

Figure 79

**World per capita recorded alcohol consumption CY21 (in litres) - Per capita consumption of alco-beverages**


Note: World per capita consumption of alcohol as per actual alcohol content of each category. Source: Sula Vineyards

Figure 80

**Per capita consumption of alcoholic beverages as per alcohol concentration CY21 (total 51.8 litres)**


Note: Data converted from pure alcohol data to average concentration for each category. Total 51.5L. Source: Sula Vineyards

**In India, more than 90% of alcohol consumed in the form of spirits**

**Share of wine and beer in India to increase via market expansion and taking share from spirits**

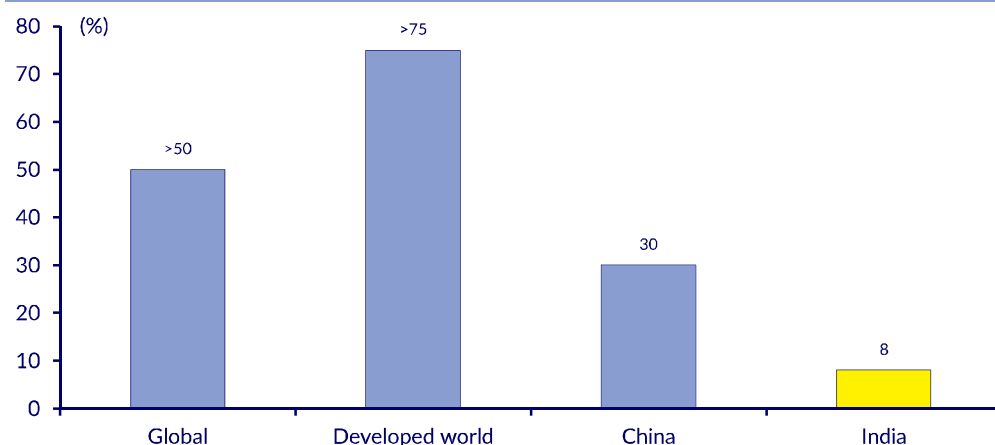
**Per capita consumption of wine in India lowest among top global economies**

**Spirits the dominant category in India**

India is a predominantly a spirits market with more than 90% of alcohol consumed in the form of spirits. The per capita consumption of spirits in India is one of the highest among top economies of the world. Meanwhile, the nation's share of low alcoholic beverages in overall consumption of alcohol is 8%, much lower than the world average of more than 50%. In developed countries, low-alcohol drinks account for more than 75% of overall alcohol consumption while in China it is more than 30%.

A growing economy and positive demographic factors along with globalization is set to redefine the alcoholic beverage market in India. The share of wine and beer is projected to increase both by expansion of the market and taking a share of the market from spirits.

Figure 81

**Share of low alcoholic beverages in overall consumption of alcohol**


Source: Sula Vineyards

**Potential for wine consumption in India to grow in multiples**

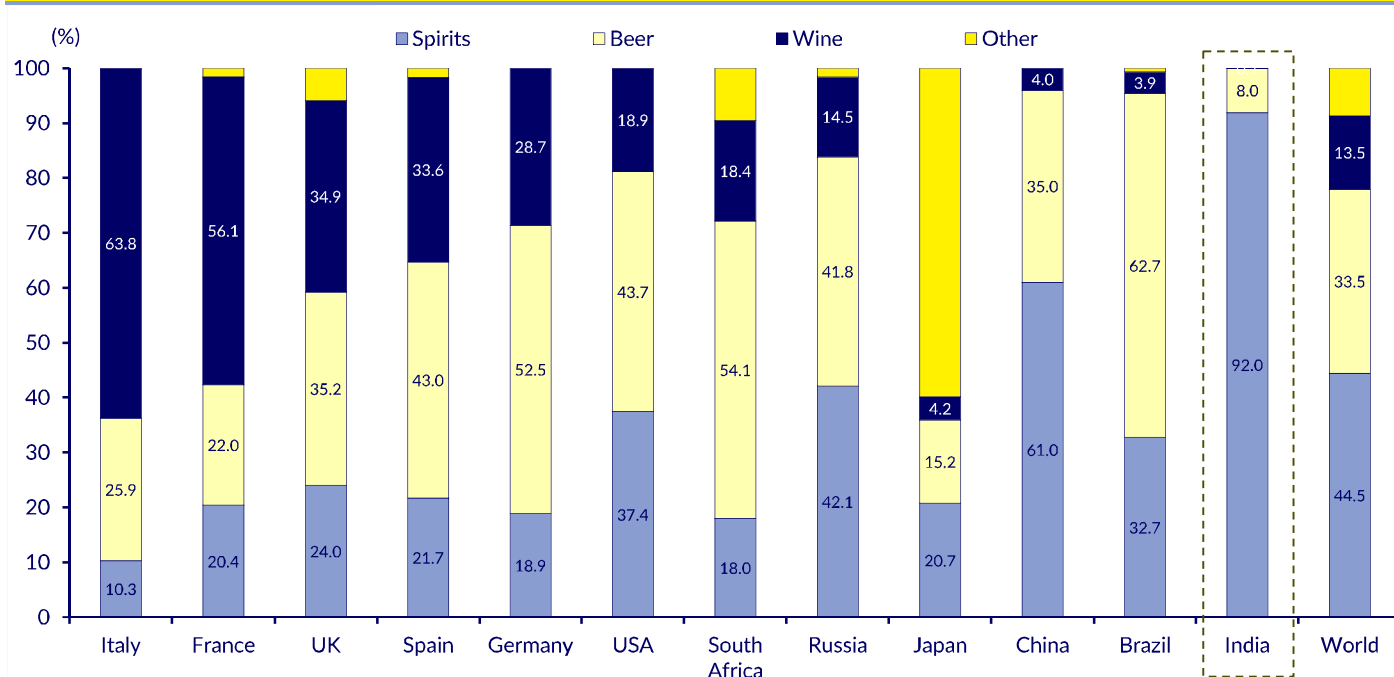
At 25 millilitres, India's current per capita consumption of wine is the lowest among top economies in the world but one of the fastest growing. The contribution of wine to overall alcohol consumption in India is less than 1% against the world average of close to 13%. Consumption of wine is higher in developed countries, which is as high as close to 30% in Europe.

In China, per capita wine consumption correlated with economic growth

A comparison between India and China shows that in China, even though the contribution of wine to overall alcohol consumption is close to 3% only, China's per capita consumption of wine is more than 50 times that of India's. Growth of per capita consumption of wine in China has a strong co-relation with the economic growth of the country. In China, the per capita consumption of wine grew from 170 ml in 1980 to cross one litre in the year 2000 with an annual growth of more than 10%, as per capita income grew from close to US\$195 to US\$960 in the same period. India with the per capita income of close to US\$2,100 in the 2019, has crossed the per capita income threshold as benchmarked to growth of wine consumption in China, which augurs well for growth in wine consumption in India.

Figure 82

#### Contribution of alcoholic beverages in 100% alcohol CY21 (volume in %)



Source: Sula Vineyards

Per capita consumption of wine is small compared to spirits and beer

Figure 83

#### Per capita alcoholic beverage consumption as per alcohol concentration CY21 (in Litres)

Country	Spirit	Beer	Wine	Others	Total
Germany	4.97	110.53	25.19		140.68
Japan	4.55	26.77	3.07	105.13	139.52
Spain	5.78	91.60	29.78	3.67	130.83
UK	5.94	69.94	28.88	11.75	116.51
France	5.75	49.64	52.79	3.52	111.70
South Africa	3.27	78.62	11.13	13.97	106.99
USA	8.39	78.45	14.18		101.02
Italy	2.00	39.96	41.08		83.03
Brazil	4.91	75.30	1.93	0.85	82.99
Russia	7.01	55.71	8.05	2.14	72.91
China	7.11	32.66	1.56	0.85	42.19
India	6.93	4.79	0.04		11.75
World	5.39	32.48	5.45	8.45	51.77

Note: 1) Per capita consumption calculated from pure alcohol, taking into consideration alcohol concentration of respective categories as a factor. 2) Data projected basis WHO data up to 2019. Source: Sula Vineyards

India's drinking population is 33% compared to 41.7% for the world

Industry size is 1bn cases per annum in FY20 and could expand 20% by FY25

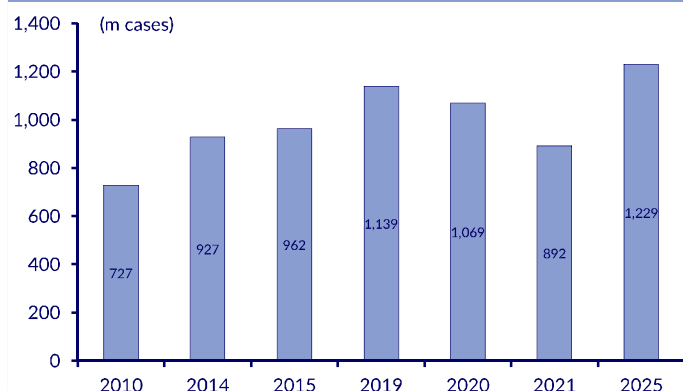
## Indian alcoholic beverage industry: Dominated by spirits

India is one of the fastest growing alcohol markets among the top economies in the world. The recorded per capita consumption of pure alcohol in India has moved from 0.9 litres in 2000 to 3 litres in 2015, a Cagr of more than 8%. The percentage drinking population of world is close to 41.7% and projected to stabilise around 40% in 2025, as per Technopak Analysis. India's percentage of drinking population is projected to be close to c.33% in FY21 and c.39% in FY25.

The Indian alcohol industry size is estimated at c. 1bn cases per annum in FY20 and is dominated by high alcohol content spirits. Alcohol beverage market in India is almost equally divided between country liquor, Indian made foreign liquor and beer with a small contribution from wines and imported spirits. The industry is projected to cross 1.2bn cases in volume by 2025, as per Technopak analysis

Figure 84

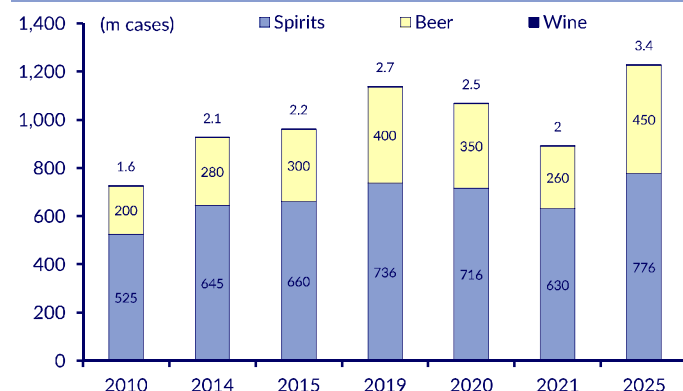
### Overall alcoholic beverage consumption in India



Note: Data projected basis Multiple State Excise Dept, Annual Reports WHO data. Source: Sula Vineyards

Figure 85

### Alcoholic beverage consumption by type



Note: Data projected basis Multiple State Excise Dept, Annual Reports WHO data. Source: Sula Vineyards

Wine consumption to grow at a 14.4% Cagr over 2021-25F

Almost even split between country liquor, Indian made foreign liquor and beer

Figure 86

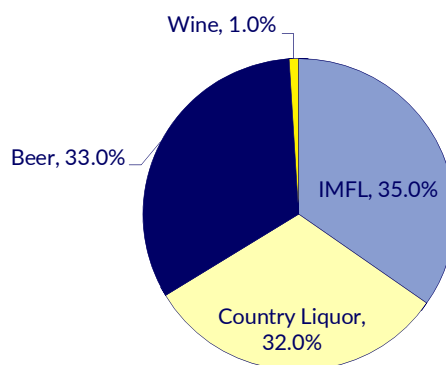
### Alcohol beverage consumption in India

Cagr (%)	Wine	Spirits	Beer	Total (%)
2010 - 2015	6.1	4.7	8.4	5.8
2014 - 2019	5.4	2.7	7.4	4.2
2021 - 2025F	14.4	5.3	14.7	8.3

Source: Sula Vineyards

Figure 87

### Alcohol consumption in India in FY20 (1,068m cases)



Note: Data projected basis Multiple State Excise Dept, Annual Reports WHO data. Source: Sula Vineyards



Indian made foreign liquors (IMFL) contribute 68% in value to overall market

Indian market projected to grow at 11% per annum from 2021-25

IMFLs dominate India's alcohol market

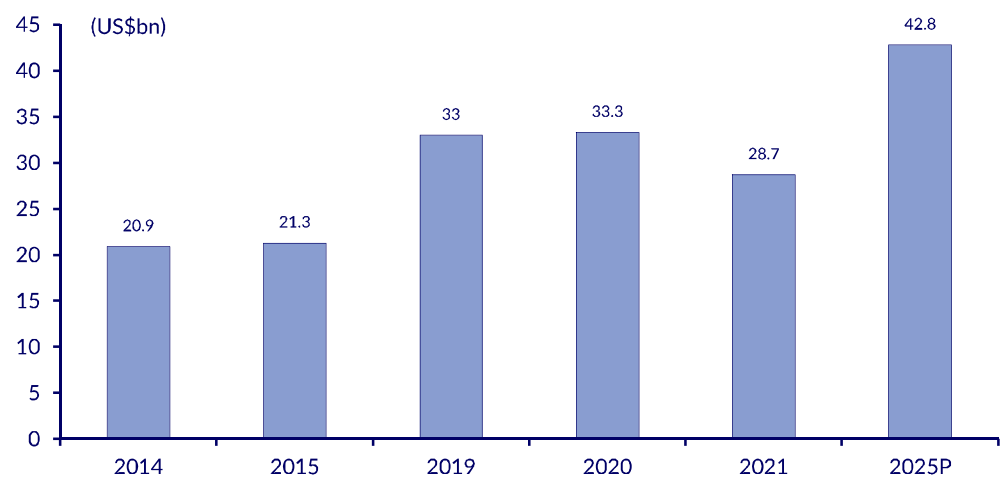
### Indian alcoholic beverage market is third largest in the world

According to Technopak, the Indian alcoholic beverage market was worth Rs2.5tn/US\$33bn in FY20, making it one of the largest markets in the world. The Indian alco-beverage market was the third largest market in the world after China and the US by volume in terms of actual alcohol content of alco-beverages in CY20.

Technopak projects the Indian alcoholic beverage industry will grow at a volume Cagr of 8% in FY21-25 versus projected global market growth of 1.5%, as per IWSR. In value terms, the Indian market is projected to grow at 11% annually for the period between 2021-25.

Figure 88

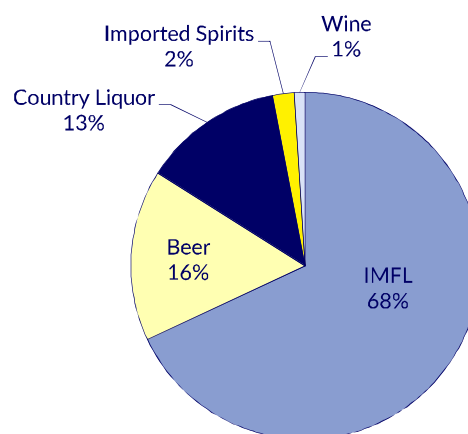
#### Indian alcoholic beverage market



Note: Data projected basis annual reports Multiple State Excise Dept.; 1 US\$ = INR75. Source: Sula Vineyards

Figure 89

#### Indian alcoholic beverage market (US\$33.3bn - FY20) - product segmentation



Note: Data projected basis annual reports Multiple State Excise Dept.; 1 US\$ = Rs75. Source: Sula Vineyards

Indian wine industry grew at a 18.3% Cagr by value between FY14-21

Share of wine is less than 1% compared to 10.5% for the world

Germany drinks the most beer while Italy and France consume the most wine

India's wine market to grow from 2m cases in FY21 to 3.4m in FY25F by volume

The Indian wine industry grew at 18.3% Cagr by value between FY14-21 versus the IMFL market, which expanded 10.8% in the same period, according to Technopak. Growing awareness towards the perceived health benefits of wine makes it more acceptable to consume compared to spirits. The supply of domestic wines that are reasonably priced and easily available compared to imported wines has also helped expand the market as leaders in the domestic market have invested in the complete value chain of wines and wine making.

As of CY21, the share of wine as a form of alcohol consumption in India was less than 1% compared with the global average of 10.5%, in terms of 100% pure alcohol. Its contribution is as high as c.50% in select European countries. The contribution of wine is c.4% of alcohol consumption in China, which is more than 50 times that of India. The wine category in India was estimated at 2m cases in FY21 and projected to grow to 3.4m cases by FY25 with a Cagr of more than 14% in volume, as per Technopak.

Figure 90

**Alcohol consumption percentage by country and alcohol concentration type for 2021**

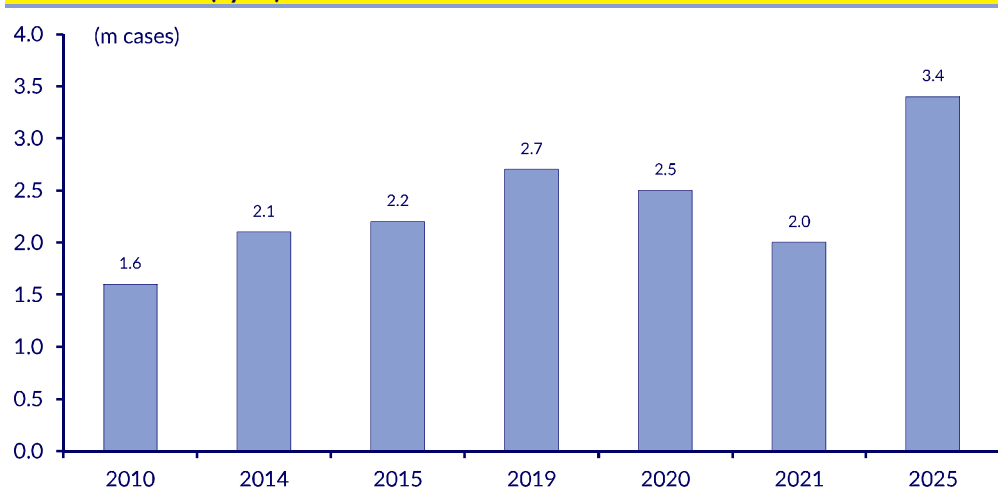
(volume in %)

Country	Spirits	Beer	Wine	Other	All types
Germany	3.50	78.60	17.90		100.00
Japan	3.30	19.20	2.20	75.40	100.00
Spain	4.40	70.00	22.80	2.80	100.00
UK	5.10	60.00	24.80	10.10	100.00
France	5.10	44.40	47.30	3.10	100.00
South Africa	3.10	73.50	10.40	13.10	100.00
USA	8.30	77.70	14.00		100.00
Italy	2.40	48.10	49.50		100.00
Brazil	5.90	90.70	2.30	1.00	100.00
Russia	9.60	76.40	11.00	2.90	100.00
China	16.90	77.40	3.70	2.00	100.00
India	59.00	41.00	0.00		100.00
World Average	10.40	62.70	10.50	16.30	100.00

Note: Data derived from per capita recorded alcohol consumption from WHO. Source: Sula Vineyards

Figure 91

**Indian wine market (by FY)**



Note: Data projected basis reports from WHO, OIV, import data. Source: Sula Vineyards

India spirits market controlled by top-two global spirits companies

Top-three players in the spirits market control c.50% of spirits market by volume

Top-three players in beer market control c.80% of beer market by volume

For wines, top-three players control c.80% of domestic 100% grape wine market

Indian wine industry market size expected to reach Rs32bn by FY25

Figure 92

#### Key players in Indian alcoholic beverage market

Alcohol	Company	Brands
Spirits	Diageo India	McDowell No. 1, Royal Challenge, Signature, VAT 69, Black Dog, Johnnie Walker
	Pernod Ricard	Imperial Blue, Royal Stag, Blenders Pride, 100 Pipers, Ballentine's, Chivas, Glenlivet
	Radico Khaitan	8 PM, Magic Moments
	Allied Blenders	Officer's Choice Blue, Officer's Choice Black, Sterling Reserve B7, Sterling Reserve B10
Beer	United Breweries	Kingfisher, Kalyani Black label, Sandpiper, Heineken
	Anheuser-Busch InBev NV	Haywards, Fosters, Budweiser, Corona
	Bira 91	Bira Light, Bira Strong, Bira Blonde, Bira White
	Carlsberg	Tuborg, Carlsberg
Wine	Sula Wines	Sula Shiraz cabernet, Sula chenin Blanc, Sula Zinfandel Rose, Madera Red, Dindori Reserve Shiraz, Satori, Samara Red, Rasa Cabernet Sauvignon, The Source Grenache Rose, Dindori Reserve Chardonnay, Sula Sparkling Shiraz
	Grover Zampa	LA Reserve, Vijay Amritraj White, Chene Grand Reserve
	Fratelli	Shiraz, Merlot, Sete

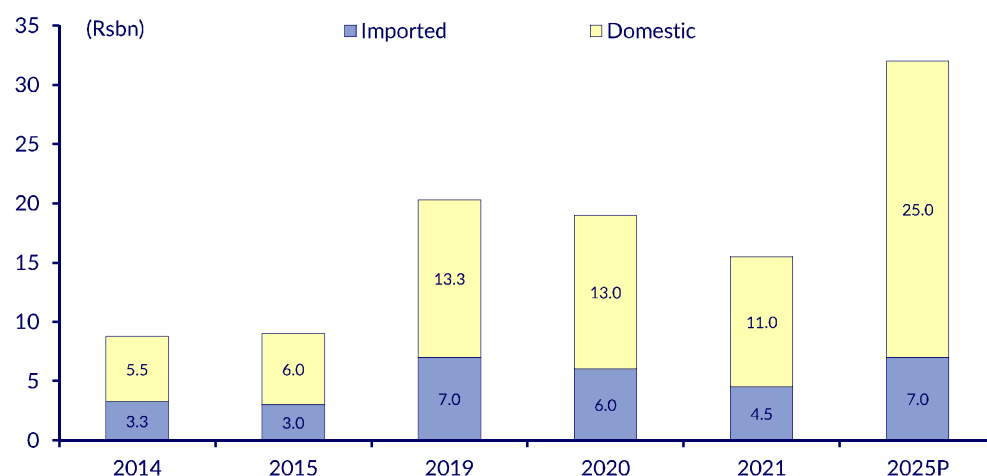
Source: Industry reports, Sula Vineyards

### Indian wine market to grow substantially

In value terms, the Indian wine market is sized at Rs19bn as of FY20 and projected to reach Rs32bn by FY25, according to Technopak. The wine industry is leveraging several positive factors, including the premiumisation of the alcoholic beverage industry, wider acceptance of wine as a social drink and the growing perception of wine as a healthy alternative to spirits.

Figure 93

#### Indian wine industry market size by value



Source: Sula Vineyards

The Indian wine market is projected to reach Rs32bn by FY25 with a Cagr of 20% from 2021

Key factors driving growth of India's wine market include rising income and urbanisation

Segmentation of the wine market categorises wine into a) 100% grape-based wines and b) fortified mixed wines (quality diluted)

Figure 94

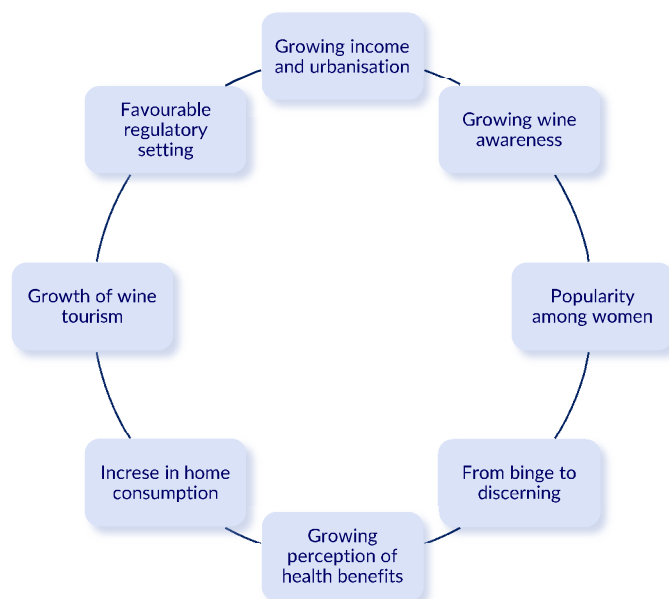
#### Indian wine industry - Cagr for market size by value

Cagr (%)	2014-19	2021-25
Imported	16.6	11.7
Domestic	19.3	22.8
Overall	18.3	19.9

Source: Sula Vineyards

Figure 95

#### Key factors driving growth of the wine market in India

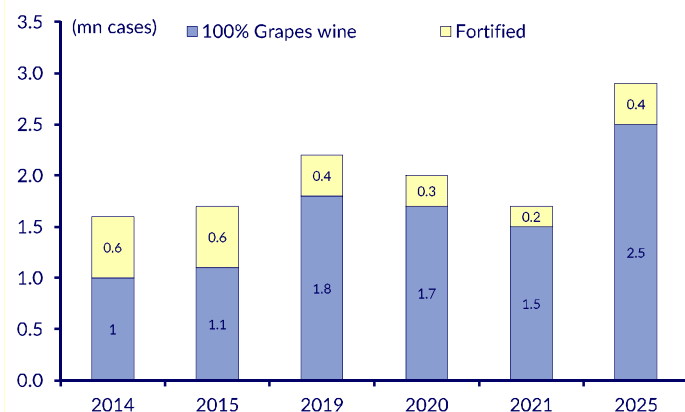


Source: Sula Vineyards

#### Share of 100% grape wine is rising

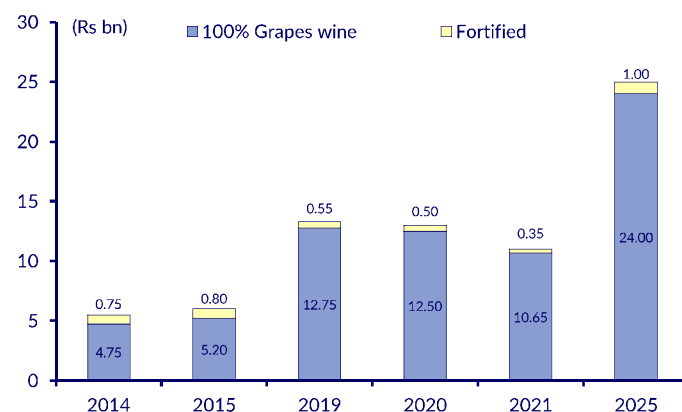
Segmentation of the wine market categorises wine into a) 100% grape-based wines and b) fortified mixed wines (quality diluted). The domestic wine industry has suffered from the prominence of fortified mixed wines, which contributed close to 38% of the market by volume in FY14. However, the share of low-quality fortified wines has been coming down.

Figure 96

**Annual fortified and 100% grape wines volume (in m cases)**

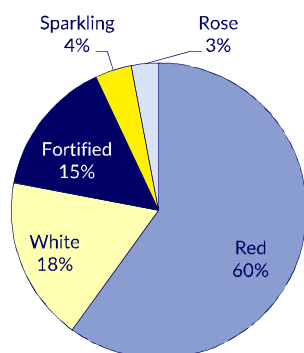
Source: Sula Vineyards

Figure 97

**Annual fortified and 100% grape wines value (in Rsbn)**

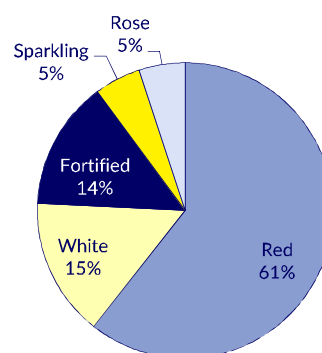
Source: Sula Vineyards

Figure 98

**Types of domestic wine - FY20 (2.1m cases)**

Note: Rounded off to nearest decimal. Does not include imported wines.  
Source: Sula Vineyards

Figure 99

**Types of domestic wine - FY25F (3m cases)**

Note: Rounded off to nearest decimal. Does not include imported wines.  
Source: Sula Vineyards

India's domestic wine of 100% grape market was about Rs10.6bn in FY21

The Indian domestic wine 100% grape market was about Rs10.6bn in size as of FY21, according to Technopak, and dominated by the top-three players, which contributed close to 80% of the market by value. The market is set to grow by a Cagr of 22% by value from FY21-25, according to Technopak.

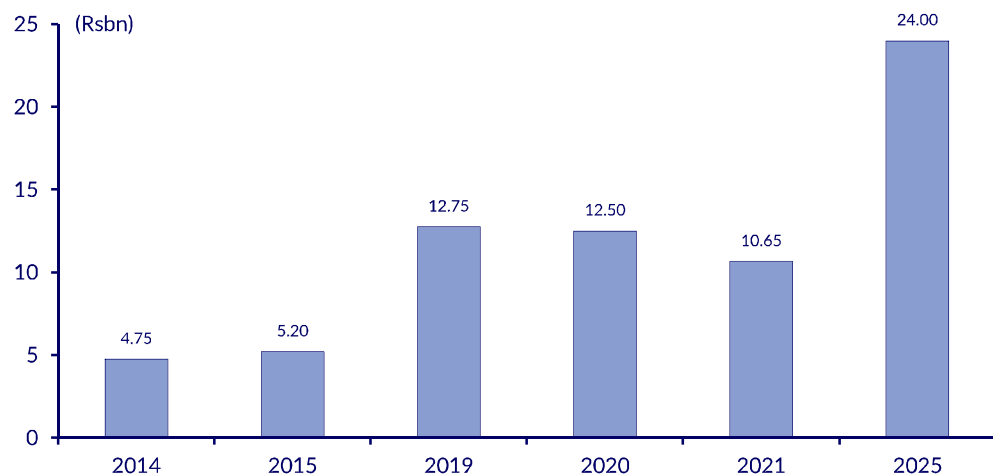
Domestic 100% grape wine market to grow at a 22.5% Cagr over FY21-25

Premium and elite segments represent large part of the wine category

Premium and elite segments are likely to sustain accelerated growth

Figure 100

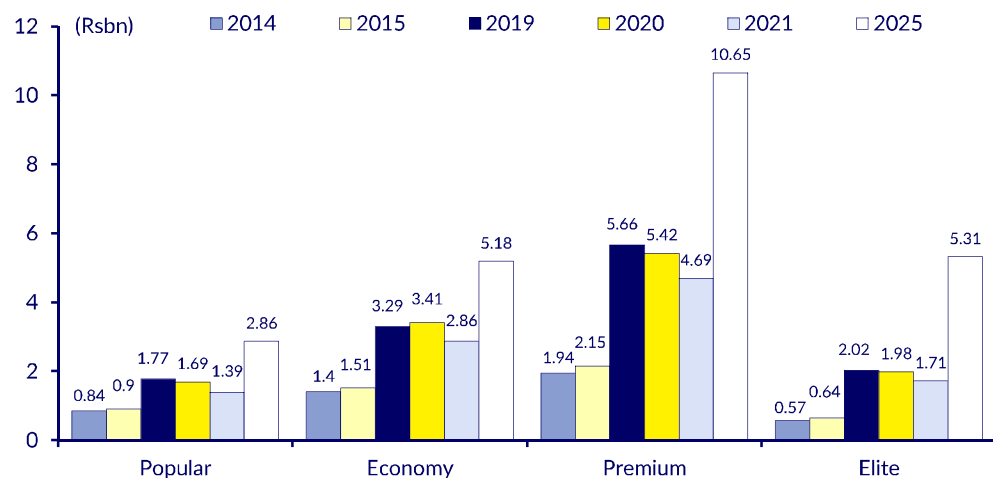
#### Indian domestic 100% grape wine market



Source: Sula Vineyards

Figure 101

#### Share of domestic wine 100% grape market by category



Source: Sula Vineyards

Figure 102

#### Growth of domestic wine 100% grapes by category

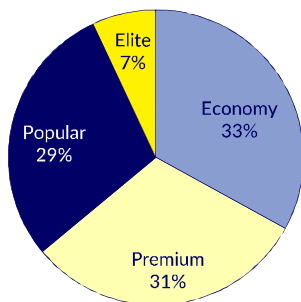
Cagr (%)	2014-19	2021-25
Popular	16.10	19.80
Economy	18.70	16.00
Premium	23.90	22.70
Elite	28.80	32.80

Source: Sula Vineyards



Figure 103

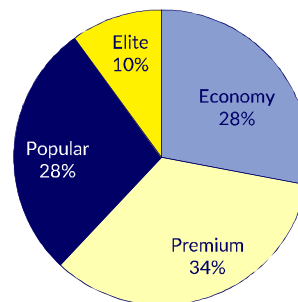
**Category-wise share of domestic wine 100% grapes market by volume – FY20 (1.7m cases)**



Source: Sula Vineyards

Figure 104

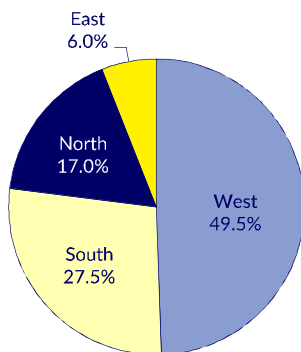
**Category-wise share of domestic wine 100% grape market by volume – FY25P (2.5m cases)**



Source: Sula Vineyards

Figure 105

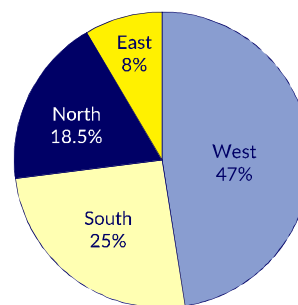
**Share of domestic 100% grape wines by region (FY20 Rs12.5bn)**



Source: Sula Vineyards

Figure 106

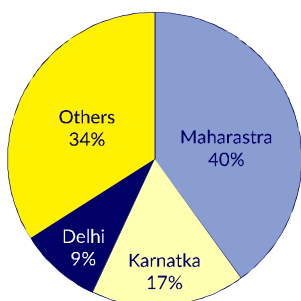
**Share of domestic 100% grape wines by region (FY25F Rs24bn)**



Source: Sula Vineyards

Figure 107

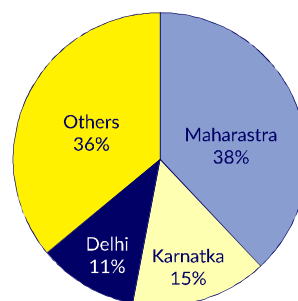
**Share of domestic 100% grape wines by state (FY20 Rs12.5bn)**



Source: Sula Vineyards

Figure 108

**Share of domestic 100% grape wines by state (FY25F Rs24bn)**



Source: Sula Vineyards

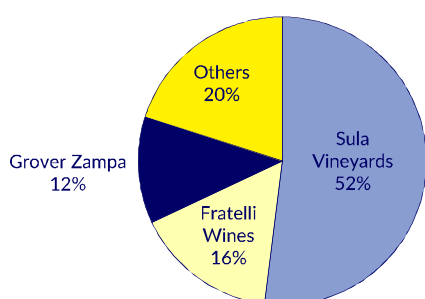
Figure 109

**Key players in Indian wine market**

Key Players	Own labels	No. of labels
Sula Vineyards Pvt. Ltd.	Rasa, The Source, Dindori Reserve, Madera, Dia, Sula Classics, Satori	56
Fratelli Wines	J'Noon, JCB, Sette, MS, Fratelli	26
Grover Zampa Pvt. Ltd.	Insignia, Vendanges Tardvies, Chene, Soiree, Auriga, Vijay Amritraj	35

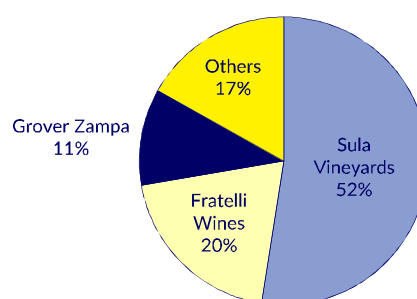
Source: Sula Vineyards

Figure 110

**Domestic share of 100% grape wine industry (Rs12.5bn for FY20)**

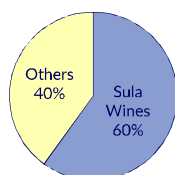
Source: Sula Vineyards

Figure 111

**Domestic share of 100% grape wine industry (Rs10.7bn for FY21)**

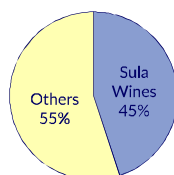
Source: Sula Vineyards

Figure 112

**Market share in Maharashtra (FY20 by value)**

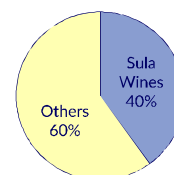
Source: Sula Vineyards

Figure 113

**Market share in Karnataka (FY20 by value)**

Source: Sula Vineyards

Figure 114

**Market share in Delhi (FY20 by value)**

Source: Sula Vineyards

Sula has the most 100% grapes wine labels across all price categories . . .

Figure 115

**Key wine players in domestic 100% grapes wine market by category**

Wine categories	Price range	Count of labels <sup>1</sup>		
		Sula	Grover Zampa	Fratelli
Elite	Rs950+	21	12	8
Premium	Rs700-950	13	13	11
Economy	Rs400-700	13	8	4
Popular	< Rs400	9	2	3

<sup>1</sup> Data as of December 2021. Source: Sula Vineyards

... and by wine types

Imported wine share likely to shrink from 17% in FY20 to 13% in FY25 by volume

Figure 116

#### Key wine players in domestic 100% grapes wine market by wine type

Wine type	Count of labels <sup>1</sup>		
	Sula	Grover Zampa	Fratelli
Red	22	14	12
White	19	15	9
Sparkling	10	4	3
Rosé	5	2	2

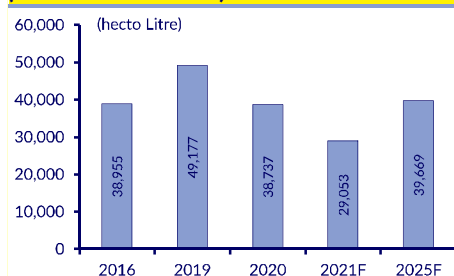
<sup>1</sup> Data as of December 2021. Source: Sula Vineyards

#### Imported wines play a critical role in the Indian wine market

Imported wines continue to play an important role in the Indian wine market, with a 17% share by volume in FY20 and projected at 13% in FY25, according to Technopak. The Indian wine market in the period from 1996 to 2020 has transformed from 100% contribution of imported wines to close to 17% in 2020 according to Technopak. Imported wines face high import duties as well as freight and logistic barriers that render them much more expensive relative to locally produced wines.

Figure 117

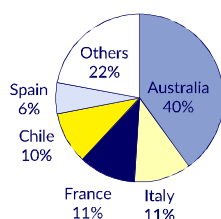
#### Wine import in India: value for FY (volume in hecto litres)



Note: Import value only for CIF value. Source: Sula Vineyards

Figure 118

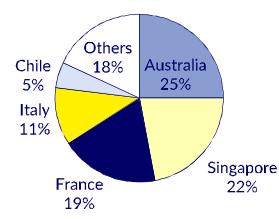
#### Wine Import by countries into India FY20 (Total volume: 38,737 hecto litre)



Note: Import value only for CIF value. Total volume: 38,737 hectolitres. Source: ITC trade map, OIV, Sula Vineyards

Figure 119

#### Wine Import by countries into India FY20 (Total value: US\$19.6m)



Note: Import value only for CIF value. Total value: US\$19.6m. Source: ITC trade map, OIV, Sula Vineyards

Less than 2% of grape farms are cultivating wine grapes in India

Contrary to world average, table grapes dominate Indian grape production

#### Value-chain and the ecosystem of the industry

India was the fastest growing and the seventh largest country in terms of grape production as of 2020. It has more than 140,000 ha of grape farms, the 12th largest in the world, ahead of key wine-producing countries including Australia and South Africa. However, less than 2% of grape farms are cultivating wine grapes and only about 1% of grape production comprises wine grapes. The Indian grape industry primarily focuses on table grapes, with 85% of grapes being consumed fresh and the remainder used in drying or being crushed for juice.

Figure 120

#### Table and wine grape production by country

(m tons)	Table grapes		Wine grapes		Total grapes	
	2010	2020	2010	2020	2010	2020
China	5.6	10.9	2.6	3.9	8.2	14.8
India	0.7	2.5	0.2	0.6	0.9	3.1
Turkey	2.2	2.2	2.1	2.0	4.3	4.2
USA	1.0	0.9	5.8	4.5	6.8	5.4
World	21.0	37.5	45.7	40.5	66.7	78.0

Source: Sula Vineyards

Wine grapes represent 19% of production in India

Figure 121

Production in India		
	Table grapes	Wine grapes
Production (m tons)	2.5	0.6
(mix %)	80.65	19.35
Contribution by state (%)		
Maharashtra	78	90
Karnataka	18	7
Others	4	3
Total	100	100

Source: Sula Vineyards

Vineyards help provide a regular source of income to farmers through contracts with wineries. Planting a vineyard in India, on average, requires a minimum commitment of 15 years by the grower. Given the long lead time to develop vineyards, it can be difficult for new entrants to venture into the Indian wine industry and secure a consistent and steady supply source for wine grapes.

Figure 122

Top India players - vineyard details			
Vineyard	Area under cultivation (in acres)	Year of commencement	Region(s)
Sula	2,600	1998	Nashik, Maharashtra
Fratelli Wines	240	2007	Sholapur, Maharashtra
Grover Vineyards Limited	>410 acres	1988	Nashik, Maharashtra; Nandi Hills, Karnataka

Source: Sula Vineyards

We expect farmers in India to move from table grapes to wine grapes with the growing popularity of wines. Wine grapes are more profitable for farmers than table grapes, since quintal returns are higher. The returns are normally guaranteed by wineries through long-term contracts for 8-10 years, which is not the case with table grapes, which are mainly traded through APMC markets.

Figure 123

Top Indian players - land acreage						
(in acres)						
Company	2006	2010	2015	2019	2020	2021
Sula	c.1,500	c.1,800	c.2,000	c.2,650	c.2,800	c.2,600
Fratelli Wines	80	240	240	240	240	240
Grover Zampa Vineyards	c.410	c.410	c.410	c.460	c.460	c.460

Source: Sula Vineyards

Figure 124

Top wine players installed capacity FY21	
(volume in '000 litres)	Installed capacity
Sula	13,983
Fratelli Wines	1,400
Grover Zampa Vineyards <sup>1</sup>	4,700

<sup>1</sup> Includes capacity of Four Seasons and Charosa wines. Source: Sula Vineyards

Sula is the biggest player in terms of acreage under cultivation ...

... and overall land acreage

Sula has the largest installed capacity

Grape production cycle is Dec-Mar in Nashik region

The top three players dominate (c.80%) the Indian wine market

Economic life cycle of a vineyard in India is 15-20Y with long gestation period

Typical long-term contracts between wineries and farmers have 12Y terms

Alcohol policies vary widely across India, affecting distribution

Unlike other alcoholic beverages, the wine industry has only one raw material production cycle in a year - usually from December to March in the Nashik region. Wine production starts with the harvesting season in December and continues until April. Wine storage and ageing happens throughout the year. Since there is only one harvesting season a year, inventory for the full year is effectively built up in just four months (Dec to Mar) resulting in high year-end inventory.

The top three players dominate the Indian wine market, which have high barriers of entry for new players:

Figure 125

**Market size by country (in m cases) and share of top players (2020)**

Country	Beer		Spirits		Wine	
	Market Size	Share : Top 3 players	Market Size	Share : Top 3 players	Market Size	Share : Top 3 players
China	~3,800	~65%	~1000	~10%	~170	<10%
USA	~2,500	~ 70%	~270	~(30-40%)	~360	~40%
France	~250	>50%	~35	~(35-45%)	~275	~20%
India	~300	~80%	~350	~(40%-45%)	~1.7	~80%

Note: India data in FY. Data for 100% domestic wine, estimated from industry reports. Source: Sula Vineyards

- ❑ **Long gestation period for maturing of vineyard:** The wine value chain process is very long and it takes several years before wine is ready to be bottled. The grape vines, once planted, require a minimum of two years to mature and during this period the vines require intense care. Post-harvest, it takes up to two years to manufacture authentic wine. The economic life cycle of a vineyard in India is typically 15 to 20 years, with a relatively long gestation period (of about two years) associated with its setup. The long gestation period from initiation to final product creates an entry barrier for new players.
- ❑ **Close association/tie-ups needed for cultivation:** The entire process requires a number of steps, including grape site preparation, a long period of grape production, then wine production, logistics and marketing and distribution. Long-term contracts are signed between wineries and the farmers with a typical term of 12 years to ensure remuneration for the farmers. This makes it difficult for new players to achieve scale.
- ❑ **Fragmented distribution chain:** Each state is free to decide its own alcohol policy, including procurement, pricing, distribution and restricted use of alcohol or a complete ban. This creates a fragmented approach towards the alcohol market and breaks up the distribution chain; regional distribution also comes into play.
- ❑ **Winemaking expertise:** Winemaking requires expertise on many levels - from identifying the correct soil and grape variety to be grown on what land, to grape and wine quality and product marketing.
- ❑ **Regulatory barriers:** State-wide policies for alcohol are fragmented across the country, with differing freedoms and restrictions accorded by the state governments. This makes it difficult to constantly keep track of the pricing, labels, production method, excise, etc.

Exports of wine from India were estimated at Rs358m in CY20

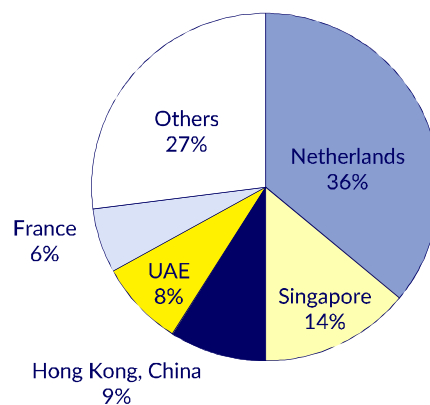
India wine exports were Rs358m as of 2020

### Export of wine from India

India wine exports are estimated to be Rs358m as of 2020, accounting for less than 1% of exports from India, according to Technopak. In 2019, India's share in the export of alcoholic beverages was 0.27% with a global rank of 32. A phased tariff reduction on intermediate products to manufacture alcohol will help boost alcohol production and improve exports. However, with the right government policies, there is significant potential for wine exports from India, in our view.

Figure 126

#### Wine exports from India (FY20)



Note: Total value: US\$7.6m. Source: Sula Vineyards



Premiumisation is the most important theme in Indian alcoholic beverage sector

Rapid urbanisation leading to higher consumption of premium alcoholic brands

## Appendix 1: Key trends in alcoholic beverages

### Demographic dividend, growing income and rapid urbanisation

India is expected to add close to 10-12m people to its workforce every year over the next two decades, with the working-age population projected to cross the 1bn mark by 2030 according to Euromonitor. The technology boom and increasing number of multinational companies in India have led to increased disposable income and the increased prevalence of western culture involving social drinking, which is boosting alcohol consumption.

### Premiumisation of alcoholic beverages in India

Premiumisation is the most important theme in each of the sub-segments of the Indian alcoholic beverage sector as volume growth led by the popular segment in the first decade and a half of the century has transitioned to value led growth in more premium segments in the past decade. The premiumisation trend is prevalent across the value chain, including the launch of new products, branding of shelf space in retail outlets and company outreach to its customers through multiple marketing initiatives.

Rapid urbanization is also spurring aspirations among people, leading to higher consumption of premium alcoholic beverage brands. Indians traveling abroad are also leading to an upgrade towards premium segments in the alcoholic beverage market. The trend is further being amplified with the rising influence of social media on millennials and their rising aspirations.

The wine market has been about experiential drinking and sophistication. The general trend towards drinking less but better due to Indian consumers' improving awareness will also increase premium wine consumption, in our view.

Figure 127

Premium alcoholic beverages in the wine category		
Company	Alcoholic beverage Name	Price <sup>1</sup> (Rs)
Sula	Sula Rasa Zinfandel	1,540
	Sula Brut Tropicale	1,450
	Sula Chenin Blanc White Wine	625
	Sula Dindori Reserve Viognier White Wine	850
	Sula Riesling White Wine	895
	Sula Sauvignon Blanc	725
	Satori	725
	Sula Zinfandel Rosé	750
Fratelli Wines	Fratelli Gran Cuvee Brut Sparkling	1,250
	Fratelli Sette	2,000
	Fratelli The Glass House	1,100
	Fratelli Cabernet Franc Shiraz	900
	Fratelli Cabernet Sauvignon	900
Grover Zampa Vineyards	Grover Art Collection Cabernet Shiraz Red Wine	900
	Grover Art Collection Chenin Blanc White Wine	850
	Grover VA Reserve Collection Red Wine 750ML	1,525
	Grover Zampa Soiree Brut Rosé Methode Traditionelle Wine	1,250
	Grover La Reserve Fume Blanc White Wine	1,225

<sup>1</sup> Prices mentioned for Karnataka. Note: Wine prices mentioned for 750 ml packaging. Source: Sula Vineyards

Shift in consumer drinking habits post pandemic, with drinking becoming more common at home

Trade sales a key driver of growth and premiumisation in Indian alcohol industry

### Home delivery and increased consumption at home

Home delivery and limited ecommerce for alcoholic beverages became a reality during the pandemic. Convenience and a better purchase experience with a higher comfort level for women made home delivery a promising sales channel.

However, this may prove to be a temporary phenomenon as state governments allowed home delivery to ensure that alcohol sales volume and related excise revenues could be maintained. However, there is a need for detailed regulations in this space as this channel has a lot of potential for growing the alcoholic beverage market, especially drinks with lower alcoholic content like wine. There has also been a shift in consumer drinking habits post Covid-19, with drinking becoming more common in the home. Consumers can spend less money and consume more premium alcoholic beverages while drinking at home, as compared to drinking in restaurants.

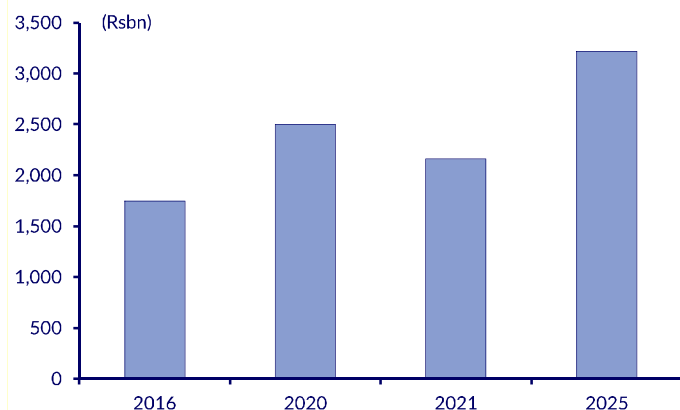
### Increasing influence of on-trade

Trade sale has been one of the key drivers of growth and premiumisation in the Indian alcoholic beverage industry. On-trade has a key role in introducing new tastes to consumers and as new products get prominence in on-trade, the off-trade segment picks up, giving the product category multi-faceted growth.

On-trade platforms like PBCLs and FDINR also serve as a medium of surrogate marketing. BTL marketing is done by brand promotion teams through tastings, complimentary drinks, etc.

Figure 128

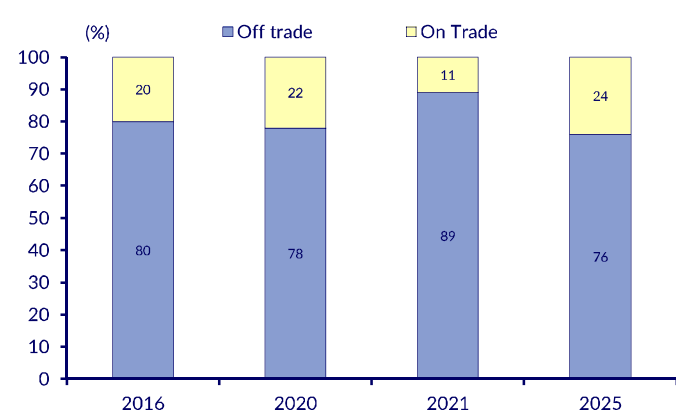
#### Indian alcoholic beverage market by value



Source: Sula Vineyards

Figure 129

#### On-trade and off-trade sales split



Source: Sula Vineyards

Share of on-trade increased from 13% in FY15 to 16% in FY20

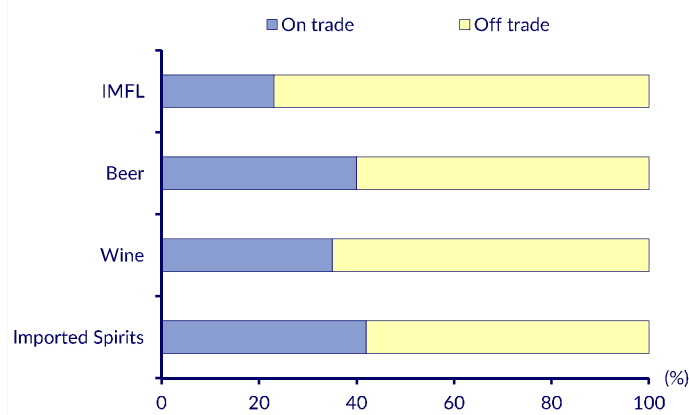
Figure 130

#### Off-trade vs on-trade share in alcoholic drinks % share by volume

	FY15		FY20	
	Share (%)		Share (%)	
Volume	Off -Trade	On-Trade	Off - Trade	On -Trade
Beer	86	14	83	17
Spirits	87	13	84	16
Wine	79	21	78	22
<b>Total</b>	<b>87</b>	<b>13</b>	<b>84</b>	<b>16</b>

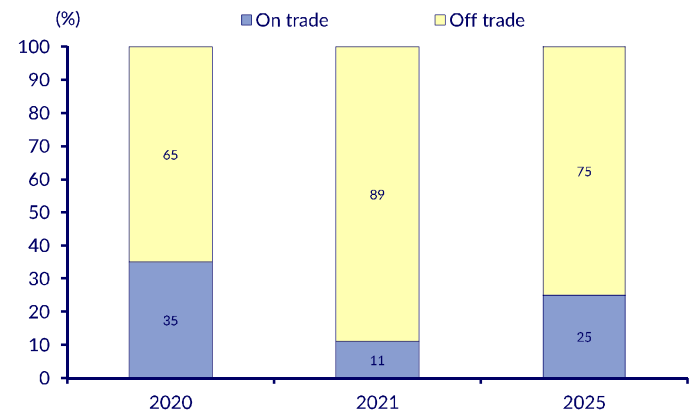
Source: Sula Vineyards

Figure 131

**Segment wise trend: on-trade vs off-trade sales (FY20)**

Source: Sula Vineyards

Figure 132

**On-trade vs off-trade sales in wine category by value**

Source: Sula Vineyards

**Alcohol brands work with influencers to convert customers into brand loyalists**

**Social taboo around drinking is declining**

**Increasing prominence of digital media and role of influencers**

Digital media has become very important in alcoholic beverage marketing as major spends are happening on digital media because mass media ATL advertising has been banned in India as per the Cable Television Network (Regulation) Amendment Bill, which came into effect in 2000. Alcoholic beverage companies work with lifestyle and alcoholic beverage influencers on a long-term basis who help them convert people from being just a brand advocate to become a brand loyalist.

**Reduction in social taboo around alcohol consumption and social drinking**

Attitudes towards alcohol have recently been changing due to globalisation, rising prosperity, and changing consumer demographics. It has become common for families to sit together and drink on occasions and certain festivals. There has been a shifting trend from binge drinking to social drinking- among friends, professional settings as well as in families. As the participation of women in the workforce has been rising and their disposable income increasing, women are increasingly participating in alcohol consumption. The social taboo around drinking has been reducing, which should especially benefit low alcoholic beverage categories including wines

Sale and production of alcohol is regulated in majority of countries

## Appendix 2: Alcohol policies in India

The alcoholic beverage industry has been saddled with the extra burden of regulations due to the perceived effect and abuse of alcohol. Sale and production of alcohol is regulated in most countries to guard against the harmful use of alcohol. These policies include controls on production, pricing, storage and movement, and final consumption of alcohol.

Figure 133

Snapshot of alcohol policies and status in India	
Policies & Interventions	Status in India
Written national policy/national action plan	Not Applicable
Excise tax on beer/wine /spirit	Applicable
Legal minimum age for sale of alcoholic beverages	Applicable
Restrictions for on-/off-premises sales of alcoholic beverages: Hours, days/places	Applicable
National maximum legal blood alcohol concentration (BAC) when driving a vehicle	Applicable
Legally binding regulations on alcohol advertising	Applicable
Legally required health warning labels on alcohol advertisements / containers	Applicable
National government support for community action	Not Applicable
National monitoring system(s)	Applicable

Source: Sula Vineyards

Alcohol policies in India can be grouped under three heads

Alcohol policies in India can be grouped under three headings. State-specific legislation on these three kinds of regulatory policies are broadly similar and focus on penalising producers rather than consumers.

Indian states have tried complete prohibition with limited success

### Total prohibition on production and consumption of all kinds of alcohol

Indian states have tried the complete prohibition of the production and consumption of alcohol but with limited success. In most cases it has led to a parallel distribution of smuggled liquor from other states or sale of spurious liquor.

Figure 134

Trends in prohibition in states of India	
State	Prohibition
Gujarat	1960 till date
Bihar	2016 till date
Nagaland	1989 till date
Mizoram	1997 to 2015, 2019 till date
Manipur	1991 to 2001
Lakshadweep	1989 till 2021
Haryana	1996 to 1998
Andhra Pradesh	1994 to 1997
Tamil Nadu	Multiple spells from 1937-2001

Source: Sula Vineyards

Some states in India have prohibited production and consumption of country liquor

### Partial prohibition of some kinds of liquor (country liquor ban in South India)

Some states in India have prohibited production and consumption of country liquor. All five states in south India have a ban on country liquor. This policy is attuned to ensure that consumption of alcohol is in safer forms of alcohol. States also try to control movement of alcohol by shutting down alcohol outlets or not opening new outlets.

As per WHO, 18-19 years is the most common minimum drinking age

### Imposition of dry days

India has a unique system of prohibition under which alcohol is not sold on certain days that are designated as dry days. While it is the prerogative of each state government to decide on its dry days, national holidays like Republic Day (January 26), Independence Day (August 15), and Gandhi Jayanti (October 2) are dry days throughout India.

### Drinking age is used to control proliferation and promote responsible drinking

The minimum legal drinking age is prescribed in the majority of countries to promote responsible drinking. As per WHO, 18-19 years is the most common minimum drinking age with 61% of countries subscribing to it. In India, the minimum drinking age of 21 is the most common rule. There are states which define 18 years as the minimum drinking age and some states define 25 years as minimum drinking age. There have been recent changes in minimum drinking age in Haryana and Delhi NCR where drinking age has been reduced from 25 to 21 years.

### Regulation on distribution of alcoholic beverages

The distribution of alcoholic beverage products is highly controlled by state governments with uniform regulations for all alcoholic beverage products. The universe of retail outlets for the alcoholic beverage industry in 2021 is estimated at close to 100k, according to Technopak. In select states distribution is completely private both at the wholesale and retail stage.

Figure 135

Distribution models in alcoholic beverage industry			
Distribution Channel	Sub-Type	Examples of States	Differentiating Details
Distributor Model Company -> Distributor -> Retail	Type 1	Maharashtra, Goa, Assam	Retail Private Distributor Private
	Type 1	Rajasthan, Karnataka	Retail Private Corporation buys from the company and sells it to retailer
Corporation Model Company -> Corporation <sup>1</sup> -> Retail	Type 2	Madhya Pradesh	Retail Private Corporation warehouses hold company stocks; Retailer lifts stocks from the corporation and then invoices are raised based on retail lifting
	Type 3	Tamil Nadu	Retail also owned by the corporation
	Type 1	Haryana, Delhi NCR	Retail Private Wholesale Private Multiple competing businesses controlling chunks of wholesale and retail
Wholesale Model Company -> Wholesale <sup>2</sup> -> Retail	Type 2	Sikkim	Retail Private Wholesale Private De facto monopoly of one group in wholesale

<sup>1</sup> Corporation is a state government-owned entity with a monopoly of distribution rights to retailers.

<sup>2</sup> Wholesalers are privately dealing with multiple manufacturers. A large part of retail & wholesale has common ownership.

Source: Sula Vineyards

Interstate duties levied on molasses, which is used to produce liquor in India

### Extensive regulations by local bodies and states

The alcohol industry is subject to extensive government regulations, as well as regulations by a variety of local bodies. Some of the regulations are listed below:

- ❑ There are interstate duties levied on molasses, which is used to produce liquor in India. As molasses are produced mainly in Uttar Pradesh and Maharashtra, the liquor companies must pay duties when they import it into their state.

Launching a new alcohol brand/product is difficult and time-consuming

Registration with Canteen Store Departments can take over nine months

- ❑ Both direct and indirect advertising of alcohol is prohibited, and it can be advertised only at point of sale (POS).
- ❑ Launching a new alcohol brand/product is a difficult and time-consuming process. It can take months to years and the company needs to seek multiple permissions and approvals from the government for the same.
- ❑ In some states companies can change/increase the price of their products only once a year when the state governments determine the prices, export duty is imposed by the state from which the alcohol is sourced, and an import duty is imposed by the state to which the alcohol is transported.
- ❑ Registration with Canteen Store Departments, which account for approximately 15% of the overall liquor consumption, can take over nine months.

Figure 136

Key features of excise policy	
State Excise Policy	Features
Ban on sale and consumption of alcohol in public places	All the Indian states and UTs have implemented this ban. Penalties for violations vary from Rs200 to Rs50,000
Licensing of days and hours of sale	All states/UTs have provisions for closure of liquor shops generally on national holidays, election days, particular day(s) in week/month, and other occasions calling for special consideration – days of national solemnity, Public Order, homage to national figures, fairs, festivals, frenzied situations, or periods of tension
Minimum sale price	17 states and UTs have fixed minimum sale prices to ensure uniformity and quality, and to prevent illegal sale
Restriction of outlet density	No license if the premises are located near an educational institution, place of worship, main bus stand, crematorium, burial ground, socio-economically backward colony, labour colony, market-place, or established habitat
Quota for retail sale/personnel limit	Provisions for quotas vary based on the type of product – and from state to state
Minimum legal drinking age (MLDA)	Different states in India have different MLDA prescribed for purchase and consumption of alcohol, varying from 18-25 years
Health warnings on alcohol containers/bottles and security holograms for quality control	Mandatory as per FSSAI and State Excise
Ban on advertising, promotion and sponsorship (including POS advertising)	Applicable in the majority of states

Source: Sula Vineyards

Figure 137

Central nodal agencies for regulation of alcoholic beverage industry	
Nodal Agencies at the Centre	Functions
Central Board of Indirect Taxes and Customs (CBIC)	Responsible for levy and collection of customs duties, taking preventive steps to curb smuggling of goods
Department for Promotion of Industry and Internal Trade (DPIIT)	Involved in the formulation of foreign direct investment (FDI) policies and promotion. Approval and facilitation of FDI flows
Legal Metrology, Department of Consumer Affairs, Ministry of Consumer Affairs, Food and Public Distribution	The legal Metrology Act mandates certain declarations on the package of a product (location of the product, net quantity, standard weights, retail sale price, consumer care details, etc.)
Food and Standards Authority of India	The Food Safety and Standards Act, 2006 and the Food Safety and Standards (Alcoholic Beverages) Regulation, 2018, thereunder, regulate the product standards and labelling of alcoholic beverages
Bureau of Indian Standards (BIS)	BIS prescribes standards, requirements and methods of sampling and testing for alcoholic beverages
Ministry of Information Broadcasting	The Cable Television Network (Regulation) Act, 1955 and the Cable Television Network (Regulation) Amendment Act, 2011 restrict the advertising of alcoholic beverages

Source: Sula Vineyards

Growing awareness, acceptance and industry input leading to recalibrated regulations

Maharashtra: excise payable on wines and reduced sales tax

Karnataka: recognised wine as horticulture and food processing industry, eligible for incentives

### Regulations are being re-evaluated based on alcohol content

Growing awareness and acceptance in society and input from industry are leading to regulations being recalibrated to look at low alcohol drinks as a separate entity from spirits. Policy initiatives are looking to wean away customers from hard liquor to low alcohol beverages, including beer and wine. Policy initiatives include friendlier policies towards the setting up of new units such as microbreweries, labelling & licensing, retailing including licenses limited to beer and wines, sampling opportunities and reduction in excise duties.

Maharashtra's grape processing industry policy introduced in 2001 was the first policy initiative to promote the production and sale of wines produced in the state.

- ❑ The policy provided for recognition of the wine industry as a small-scale industry as well as a preferential area for granting of loans.
- ❑ The policy also introduced initiatives to make the production and sale of wine much easier with reduced license fees and a single window for approvals.
- ❑ The policy has kept excise payable on wines in abeyance and put in place a reduced sales tax at 20% as against 35% and 40% for other alcoholic beverages in the market.
- ❑ Maharashtra's government also has a policy of limited licenses for beer and wine sales which are easier to procure, which helps in increasing retail penetration of wines.
- ❑ There was an excise holiday on wines until 2021. Proposal of nominal excise of Rs.10/- per litre has been enacted.

Karnataka's wine policy 2007 is the second important wine policy in the country given Karnataka is the second biggest wine consuming state.

- ❑ The state recognised wine production as a horticulture and food processing industry, making it eligible for all the incentives available to the industry in the state.
- ❑ It also provides for additional subsidies for setting-up of wineries in the state.
- ❑ The policy ensured a simplified licensing policy. It also provided for relief in excise duty for wines produced in the state and a waiver on label registration fees in the state.
- ❑ The policy allowed for the sale of wine at bars and restaurants for a minimal fee.

## Maharashtra draft wine policy 2022 is set to provide substantial benefits

The All-India Wine Producers Association (AIWPA) is seeking multiple incentives for the wine industry in Maharashtra as part of a new policy with the objective of a five-fold increase in the size of the domestic wine industry.

Maharashtra's government has approved the "shelf in shop" policy, allowing sale of wines at supermarket and grocery shops of more than 1,000 feet in size. The shelf space allowed in the shops will be 2.25 cubic metres, while the annual license fees

charged will be Rs5,000. This may lead to an immediate growth of 15-20% in wine sales as predicted by industry experts.

Wines may also be allowed to be sold through ecommerce websites and apps. The new wine policy in Maharashtra has also included wine made from other fruits to reduce wastage. The new policy initiative may also allow the sale of wines on dry days. The policy may also reduce the minimum drinking age for wines from the current age of 21 years.



Figure 138

Regulatory overview of wine industry	
Grape Processing Industry Policy 2001, Maharashtra	Karnataka Grape Processing & Wine Policy-2007
<input type="checkbox"/> Declaration as a Preferential Area for granting loans	<input type="checkbox"/> Identification and declaration of suitable areas for the cultivation of grape varieties
<input type="checkbox"/> Declaration as a Small-Scale Industry	<input type="checkbox"/> Declaring Wineries as "Horticultural and Food Processing Industries"
<input type="checkbox"/> Concession in Excise Duty - Limited to 25% of production cost for new units	<input type="checkbox"/> Simplification of rules while issuing Licenses and Permits to the Wineries
<input type="checkbox"/> Permission to sell wine by beer bars	<input type="checkbox"/> Allowing the sale of wines on the premises of Wineries
<input type="checkbox"/> Winery Product Units by giving them the status of Food Processing Units.	<input type="checkbox"/> Reduction in excise duty to Rs2/litre for wine produced in Karnataka. For wine brought from other state, duty is Rs 8/litre
<input type="checkbox"/> Permission for tourists to visit Wine Production Units for testing the wine	
<input type="checkbox"/> Simplification in process of license permission	

Source: Sula Vineyards

#### Uttar Pradesh's 2021-22 excise policy put in incentives for wineries

Uttar Pradesh's excise policy 2021-22 introduced in 2021 has put in place incentives to set up wineries in the state with an excise holiday for five years, permission to sell at wineries and permission for wine tasting. It also promotes sales of wine through a range of measures, including placement of product and sampling opportunities. Andhra Pradesh also has a policy of excise benefit for wine produced in the state. Policy initiatives include lenient retailing licenses, attractive retailing units, sampling opportunities and similar incentives. This is also helping wine sales in different states.

#### Delhi's and Uttar Pradesh's excise policies promote premium alcoholic beverages and wines

Delhi and Uttar Pradesh have put in place policies to promote premium alcoholic beverages and wines. Odisha has also put in a policy for exclusive outlets for premium alcoholic beverages.

Figure 139

Policy initiatives for the promotion of beer and wines	
State	Policy initiative
Maharashtra	<input type="checkbox"/> Excise holiday on wines until 2021. Proposal of nominal excise of Rs.10/- per litre
	<input type="checkbox"/> License fee of Rs5,000 on sale of wine and wine products
	<input type="checkbox"/> Single window system for issuance and clearance of licenses for wines
Karnataka	<input type="checkbox"/> License fee of Rs5,000 on sale of wine and wine products
	<input type="checkbox"/> Additional excise duty of Rs.2 per litre on locally produced wine
	<input type="checkbox"/> Waiver of label registration fee
Uttar Pradesh	<input type="checkbox"/> Exemption of excise duty on locally produced wines
	<input type="checkbox"/> Vintners shall be allowed retail sale of wine
	<input type="checkbox"/> Wine Tavern shall also be allowed in wineries
	<input type="checkbox"/> Wine tasting facility and sale of drinking accessories shall be allowed at premium retail venues
	<input type="checkbox"/> Ease in setting up microbreweries
	<input type="checkbox"/> Reduction in excise duties on beer
West Bengal	<input type="checkbox"/> Reduction in beer price with change in tax regime based on MRP to EDP

Source: Sula Vineyards

Sale of LAB allowed in foreign liquor retail shops, model shops and premium retail vends in addition to beer shops

Power to renew micro-brewery licenses delegated from Excise Commissioner to District Collector

### Takeaways from the Uttar Pradesh excise policy 2021-22

- ❑ Wine made from locally produced fruits is exempt from excise duty for five years.
- ❑ Vintners are allowed to engage in the retail sale of wine.
- ❑ Wine tasting facilities and sale of drinking accessories are allowed at premium retail vends.
- ❑ The sale of low alcoholic beverages (LAB) are allowed in foreign liquor retail shops, model shops and premium retail vends in addition to beer shops.
- ❑ The excise duty on beer is reduced and the shelf life of beer will be nine months.
- ❑ Brand registration, label approval, bar and micro-brewery licenses will have the option to be renewed for up to three years instead of requiring approvals every year.
- ❑ To encourage exports from the state, brand, and label approval process for exports to other states and countries simplified.
- ❑ Keeping in view the complex process of trademark registration and the time taken, brand registration will be permissible on submission of proof of filing of application for trademark registration.
- ❑ The power for renewal of micro-brewery licenses is delegated from the excise commissioner to district collector.

### Key objectives of the Delhi excise policy 2021-22

- ❑ To eradicate the sale of spurious liquor/non-duty paid liquor in Delhi and transform the consumer experience.
- ❑ To simplify the complex, heavily regulated excise regime ensuring ease of doing business in the overall trade
- ❑ To allow responsible players in the industry to carry out the trade transparently.
- ❑ To ensure equitable access of liquor supply so that there are no un-served and under-served localities eliminating the problem of spurious/non-duty paid liquor.
- ❑ To put in place a simplified duty and pricing mechanism that is periodically reviewed.
- ❑ To ensure accountability on the part of the licensee in terms of revenue enhancement besides keeping in check the emergence of monopolies and cartels.
- ❑ Promotion of consumer choice. Ensuring availability of popular as well as niche brands so that the customer has a wider choice.
- ❑ Insignificant or no price differential with the neighbouring states thereby eliminating the arbitrage for smuggling.

Foreign liquor charged under customs duty as per the Customs Act 1962

### Import duties on foreign liquor

Foreign liquor imported into India is charged under customs duty as per the Customs Act 1962. Alcoholic beverages bottled in country of origin are subject to excise and all other duties as per the excise rules of each state on the calculated EDP in most cases. High customs duty coupled with high excise and other state duties make the imported alcoholic beverages market challenging in India.

Figure 140

Import Duties on Alcoholic Beverages				
Commodities	Import Duties (%)			
	2019-20	2018-19	2017-18	2016-17
Beer Made From Malt	100	100	100	100
Port and other red wines, Sherry and other white wines, and Others. In containers holding <2 litres	150	150	150	150
Port and other red wines, Sherry and other white wines, and Others. In containers holding 2-10 litres	150	150	150	150
Other: Port and other red wines, Sherry and other white wines, and Others. In containers holding more than 2 litres	150	150	150	150
Other Grape Must	150	150	150	150
Vermouth And Other Wine of Fresh Grapes Flavoured With Plants Or Aromatic Substances. In Containers Holding <=2 Litres	150	150	150	150
Other Fermented Beverages (For L 150% - Example, Cider, Perry, Mead, Sake)	150	150	150	150
Undenatured Ethyl Alcohol Of An Alcoholic Strength By Volume Of 80% Vol. Or Higher	150	150	150	150
Ethyl alcohol and other spirits, denatured - any strength	30	5	5	30
Spirits obtained by distilling grape wine or grape marc; In containers holding 2 litres or less	150	150	150	150
Whiskies: In containers holding 2 litres or less	150	150	150	150
Rum and other spirits obtained by distilling fermented sugarcane product; In containers holding 2 litres or less	150	150	150	150
Gin and Geneva; In containers holding 2 litres or less	150	150	150	150
Vodka	150	150	150	150

Note: Data derived from Central Board of Indirect Taxes and Customs. Source: Sula Vineyards

Figure 141

Customs duty and effect of pricing, Delhi Excise			
S. No	Price parameter (Per Unit)	Rate of Calculation	(Rs)
1	Cost, Insurance, freight (CIF)	Determined	100
2	Customs Duty	1.5x of CIF	150
3	Import fee (per quart)	50/quart	200
4	Profit Margin	Determined by licensee	90
5	EDP (deemed; Ex-distillery price)	(1+2+3+4)	540
6	Profit margin for L1	12% of 5	65
7	WSP (Wholesale price)	(5+6)	605
8	Excise Duty	85% of WSP up to 1,000+ 50% of amount by which MSP exceeds Rs. 1,000	514
9	VAT	Applicable rate X(7+8)	448
10	Price to retailer	(7+8+9)	1,567

Note: Data derived from Delhi Excise policy. Source: Sula Vineyards

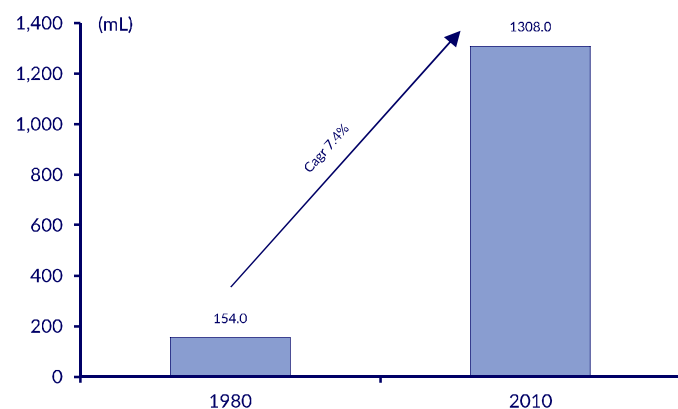
### Comparing India to China's wine market development

## Appendix 3: Evolution of Chinese wine market

The Chinese wine market has evolved from a non-native market to one of the largest wine-consuming markets in the world. Though China has been the largest table grape producer in the world, wine production and consumption was low until the 1980s. However, economic tailwinds, along with perceived health benefits of wine and a positive push from the government, have ensured that China is one of the largest producers, importers and consumers of wine in the world. The Chinese wine market moved from a per capita consumption of 170 ml in 1980 to cross one litre in 2000, as per Technopak report. As the economy grew at a Cagr of 12% to over US\$6tn, Chinese per capita wine consumption exceeded more than 1 litre.

Figure 142

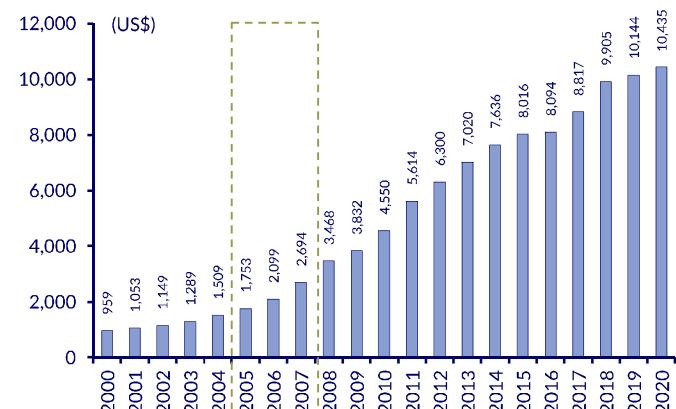
### Per capita wine consumption trend in China



Source: Sula Vineyards (1) Wine data projected from WHO, GDP from World Bank

Figure 143

### Per capita GDP trend in China



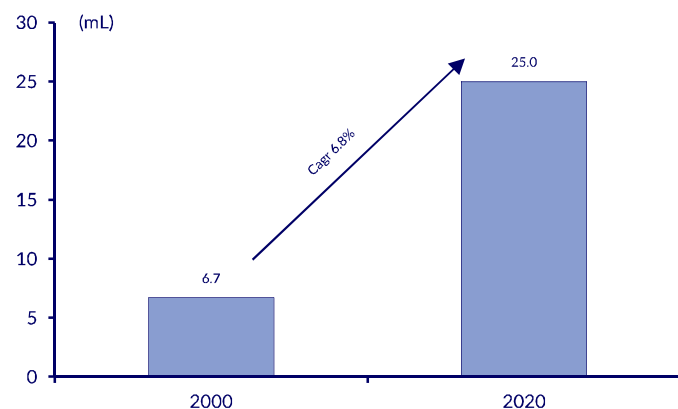
Source: Sula Vineyards

India's wine market is at an inflection point, with similar GDP per capita to China between 2005 and 2007.

India's wine market is at an inflection point, with similar GDP per capita to China between 2005 and 2007. China followed a high-growth path as per capita income surpassed US\$2,000. We expect a similar trend to be followed in India as GDP per capita crosses the US\$2,000 level between 2019 and 2024.

Figure 144

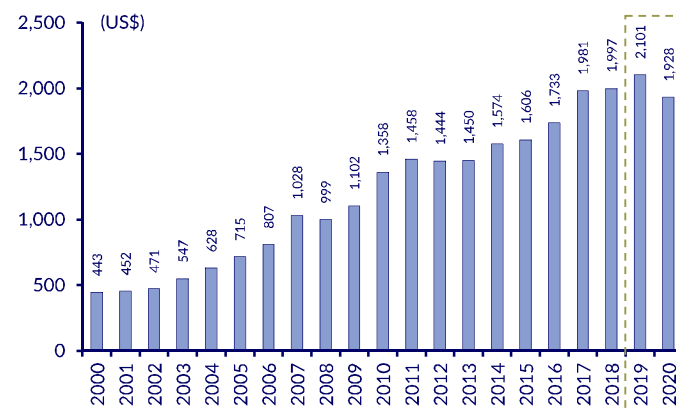
### Per capita wine consumption trend in India



Note Wine data projected from WHO, GDP from World Bank.  
Source: WHO, OIV, World Bank, Sula Vineyards

Figure 145

### Per capita GDP trend in India



Source: WHO, OIV, World Bank, Sula Vineyards

Indian market is highly concentrated among the top-three players

High production of grapes in China is a critical factor in the rise in wine consumption

Consumption increased in China from 83m cases in 1996 to 167m in 2019

Figure 146

**Wine market comparison India vs China (by volume) 2020**

Country	Count of top Companies	Share in wine market
China	3 (Changyu/Great Wall Winery/Silver Heights)	c.8%
India <sup>1</sup>	3 (Sula/Grover/Fratelli)	c.80%

<sup>1</sup> Domestic 100% grape wine market. Source: Sula Vineyards

China is the world's largest producer of grapes and rising demand for wine led to progressive conversion of table grapes to wine grapes which is more than 20%. India is the second largest table grape producer, behind China. Wine grapes constitute close to 2% of total grape production in India, there is a ready base of grape production to serve the rising demand for wines.

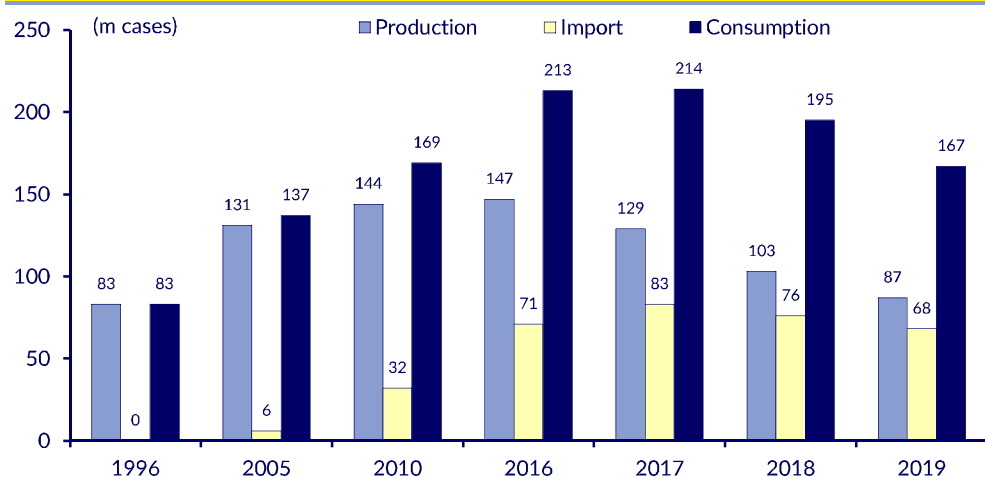
Figure 147

**Vineyard area, grape production and wine production**

Country	2000			2019		
	Vineyard (ha)	Grape Production (m tons)	Wine Production ('000 hecto litres)	Vineyard (ha)	Grape Production (m tons)	Wine Production ('000 hecto litres)
China	3,00,000	3.2	10,500	7,80,665	14.3	7,824
India	43,000	1.1	18	1,50,500	3	180

Source: Sula Vineyards, (1) Data projected from OIV country profile

Figure 148

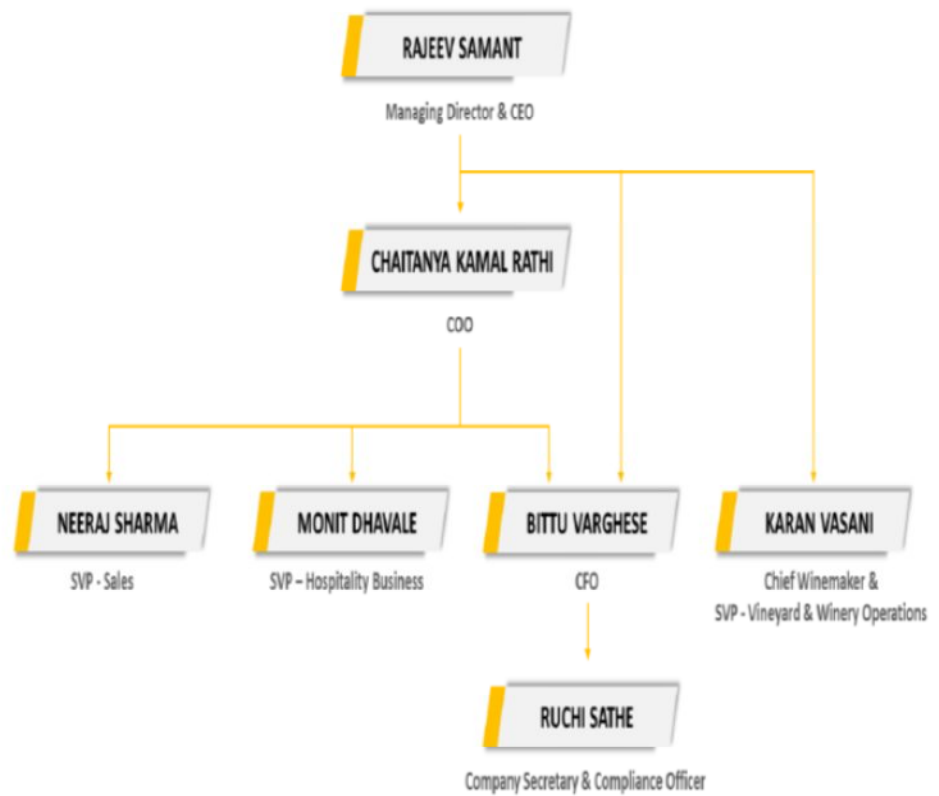
**Key trends in wine market in China (value in M cases)**

Source: OIV, Sula Vineyards

## Appendix 4: Management and board

Figure 149

### Management organisation structure



Source: Company

Sula's board consists of 6 directors, of whom 2 are nominee directors from Verlinvest

Figure 150

Board of Directors		
Name	Designation	Other directorship
Chetan Rameshchandra Desai	Chairman and Non-Executive Independent Director	<b>Indian companies</b> <ol style="list-style-type: none"> <li>1. Delta Corp Limited</li> <li>2. Crystal Corp Protection Limited</li> <li>3. Krsnaa Diagnostics Limited</li> <li>4. Chemspec Chemicals Limited</li> <li>5. Reliance Securities Limited</li> <li>6. Reliance Financial Limited</li> <li>7. Ohmy Loan Private Limited</li> <li>8. Brookfield India Infrastructure Manager Private Limited</li> <li>9. Deltatech Gaming Limited</li> <li>10. Angel Xpress Foundation</li> <li>11. UTI Retirement Solutions Limited</li> </ol>
Rajeev Samant	Managing Director and Chief Executive Officer	<b>Indian companies</b> <ol style="list-style-type: none"> <li>1. Ravenna Fashion Private Limited</li> <li>2. Summerlab Private Limited</li> </ol>
Alok Vajpeyi	Non-Executive Independent Director	<b>Indian companies</b> <ol style="list-style-type: none"> <li>1. AV Advisory Private Limited</li> <li>2. Conscious Foods Private Limited</li> <li>3. Institutional Investor Advisory Services India Private Limited</li> <li>4. Bank of Baroda</li> </ol> <b>Foreign companies</b> <ol style="list-style-type: none"> <li>1. Littlemore Innovation Labs Pte. Ltd.</li> </ol>
Sangeeta Pendurkar	Non-Executive Independent Director	<b>Indian companies</b> <ol style="list-style-type: none"> <li>1. Aditya Birla Fashion and Retail Limited</li> <li>2. TG Apparel &amp; Décor Private Limited</li> <li>3. Jaypore Ecommerce Private Limited</li> <li>4. Tata SIA Airlines Limited</li> <li>5. Signify Innovations India Limited</li> </ol>
Arjun Anand	Non-Executive Nominee Director (on behalf of Verlinvest)	<b>Indian companies</b> <ol style="list-style-type: none"> <li>1. Drums Food International Private Limited</li> <li>2. Veeba Food Services Private Limited</li> <li>3. Manash Lifestyle Private Limited</li> <li>4. Wakefit Innovations Private Limited</li> </ol> <b>Foreign companies</b> <ol style="list-style-type: none"> <li>1. Sara Global Pte. Ltd.</li> <li>2. A-Star-Education Holdings Pte. Ltd.</li> <li>3. A-Star-Education English SG Holdco Pte. Ltd.</li> <li>4. A-Star-Education Enrichment SG Holdco Pte. Ltd.</li> <li>5. A-Star-Education Adventures SG Holdco Pte. Ltd.</li> <li>6. A-Star-Education Discovery Camps Pte. Ltd.</li> <li>7. White Coral Limited</li> </ol>
Roberto Italia	Non-Executive Nominee Director (on behalf of Verlinvest)	<b>Indian companies</b> <ol style="list-style-type: none"> <li>1. Verlinvest Investment Advisor India Private Limited</li> </ol> <b>Foreign companies</b> <ol style="list-style-type: none"> <li>1. PetSerCo Holding SRL</li> <li>2. Space Holding Srl</li> <li>3. Red Black Capital SA</li> <li>4. lastminute.com Group BV</li> <li>5. Avio SpA</li> <li>6. Verlinvest S.A.</li> </ol>

Source: Company



### Valuation details

We value Sula at 34x PE - a 15% discount to other alcohol beverage companies in India (United Spirits, United Breweries and Radico Khaitan). We believe the discount is justified given that wine is still a nascent category in India and some evidence of category development is awaited.

### Investment risks

Given the high market share which Sula enjoys in wines, the major risk from a long-term point of view is if the wine category does not scale up in India.

Figure 151

Earnings and balance-sheet risk scores (lower the better)		
	Score	Comments
<b>Earnings-quality flags</b>		
Capex indiscipline	0	
Cash burn	0	
Rising non-core or intangibles	0	
Rising working capital		
Poor cash conversion	1	The company has procured working capital and invested in capex in preparation for the coming season
<b>Earnings-quality risk score (EQRS)</b>	<b>1/4</b>	
<b>Balance-sheet-quality flags</b>		
Cash burn	0	
Excessive leverage	0	
Frequent fundraising	0	
Liquidity concerns	1	The company has procured working capital and invested in capex in preparation for the coming season
Operational stress	0	
<b>Balance-sheet-quality risk score (BQRS)</b>	<b>1/5</b>	

Source: CLSA

## Detailed financials

### Profit & Loss (Rsm)

Year to 31 March	2020A	2021A	2022A	2023CL	2024CL	2025CL
Revenue	4,852	3,859	4,244	5,205	6,158	7,224
Cogs (ex-D&A)	(2,275)	(1,575)	(1,171)	(1,315)	(1,586)	(1,854)
Gross Profit (ex-D&A)	2,578	2,285	3,073	3,890	4,572	5,369
Research & development costs	-	-	-	-	-	-
Selling & marketing expenses	(525)	(467)	(445)	(549)	(674)	(819)
Other SG&A	(906)	(653)	(841)	(1,019)	(1,189)	(1,375)
Other Op Expenses ex-D&A	(657)	(555)	(653)	(756)	(892)	(1,066)
Op Ebitda	489	609	1,133	1,567	1,817	2,109
Depreciation/amortisation	(350)	(257)	(236)	(256)	(289)	(314)
Op Ebit	139	352	897	1,311	1,528	1,795
Interest income	16	36	28	32	36	40
Interest expense	(329)	(334)	(229)	(221)	(248)	(257)
Net interest inc/(exp)	(313)	(298)	(201)	(189)	(212)	(217)
Associates/investments	-	-	-	-	-	-
Forex/other income	-	-	-	-	-	-
Asset sales/other cash items	-	-	-	-	-	-
Provisions/other non-cash items	-	-	-	-	-	-
Asset revaluation/Exceptional items	-	-	-	-	-	-
Profit before tax	(174)	54	695	1,122	1,316	1,578
Taxation	15	(2)	(174)	(280)	(329)	(394)
Profit after tax	(159)	53	521	841	987	1,183
Preference dividends	-	-	-	-	-	-
Profit for period	(159)	53	521	841	987	1,183
Minority interest	0	0	0	0	0	0
Net profit	(159)	53	521	841	987	1,183
Extraordinaries/others	0	0	0	0	0	0
Profit avail to ordinary shares	(159)	53	521	841	987	1,183
Dividends	-	-	-	(168)	(197)	(355)
Retained profit	(159)	53	521	673	790	828
Adjusted profit	(159)	53	521	841	987	1,183
EPS (Rs)	(7.9)	2.6	6.2	10.0	11.7	14.1
Adj EPS [pre excep] (Rs)	(7.9)	2.6	6.2	10.0	11.7	14.1
Core EPS (Rs)	(7.9)	2.6	6.2	10.0	11.7	14.1
DPS (Rs)	0.0	0.0	0.0	0.0	0.0	0.0

### Profit & loss ratios

Year to 31 March	2020A	2021A	2022A	2023CL	2024CL	2025CL
<b>Growth (%)</b>						
Revenue growth (% YoY)	-	(20.5)	10.0	22.6	18.3	17.3
Ebitda growth (% YoY)	-	24.6	85.9	38.3	15.9	16.1
Ebit growth (% YoY)	-	153.2	154.5	46.2	16.6	17.5
Net profit growth (%)	-	nm	891.9	61.3	17.3	19.9
EPS growth (% YoY)	nm	nm	138.0	61.3	17.3	19.9
Adj EPS growth (% YoY)	nm	nm	138.0	61.3	17.3	19.9
DPS growth (% YoY)	-	-	-	-	-	-
Core EPS growth (% YoY)	nm	nm	138.0	61.3	17.3	19.9
<b>Margins (%)</b>						
Gross margin (%)	53.1	59.2	72.4	74.7	74.2	74.3
Ebitda margin (%)	10.1	15.8	26.7	30.1	29.5	29.2
Ebit margin (%)	2.9	9.1	21.1	25.2	24.8	24.9
Net profit margin (%)	(3.3)	1.4	12.3	16.2	16.0	16.4
Core profit margin	(3.3)	1.4	12.3	16.2	16.0	16.4
Op cashflow margin	9.2	31.0	20.6	19.8	17.2	17.4
<b>Returns (%)</b>						
ROE (%)	(5.3)	1.7	14.9	19.6	19.7	20.3
ROA (%)	1.5	4.3	9.0	12.2	12.6	13.3
ROIC (%)	1.9	5.3	10.8	14.4	15.0	16.2
ROCE (%)	2.1	5.7	14.9	19.7	20.6	22.2
<b>Other key ratios (%)</b>						
Effective tax rate (%)	8.4	3.2	25.0	25.0	25.0	25.0
Ebitda/net int exp (x)	1.6	2.0	5.6	8.3	8.6	9.7
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-
Dividend payout (%)	-	0.0	0.0	0.0	0.0	0.0

Source: www.clsa.com

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## Balance sheet (Rsm)

Year to 31 March	2020A	2021A	2022A	2023CL	2024CL	2025CL
Cash & equivalents	375	408	102	256	382	599
Accounts receivable	1,517	1,236	1,094	1,426	1,670	1,939
Inventories	1,713	1,439	1,623	1,586	1,912	2,235
Other current assets	795	738	874	875	875	875
<b>Current assets</b>	<b>4,400</b>	<b>3,821</b>	<b>3,693</b>	<b>4,143</b>	<b>4,839</b>	<b>5,649</b>
Fixed assets	3,264	3,141	3,454	4,047	4,409	4,595
Investments	1	0	0	-	-	-
Goodwill	27	0	9	9	9	9
Other intangible assets	257	137	160	127	97	67
Other non-current assets	362	280	271	269	269	269
<b>Total assets</b>	<b>8,310</b>	<b>7,380</b>	<b>7,586</b>	<b>8,595</b>	<b>9,623</b>	<b>10,588</b>
Short term loans/OD	2,952	2,460	1,856	2,056	2,156	2,156
Accounts payable	827	583	674	721	869	1,016
Accrued expenses	-	-	-	-	-	-
Taxes payable	0	0	0	0	0	0
Other current liabs	276	338	371	371	371	371
<b>Current liabilities</b>	<b>4,055</b>	<b>3,382</b>	<b>2,901</b>	<b>3,148</b>	<b>3,396</b>	<b>3,543</b>
Long-term debt/leases/other	975	691	543	633	623	613
Convertible bonds	-	-	-	-	-	-
Provisions/other LT liabs	257	259	189	189	189	189
<b>Total liabilities</b>	<b>5,287</b>	<b>4,333</b>	<b>3,633</b>	<b>3,969</b>	<b>4,207</b>	<b>4,345</b>
Share capital	150	151	157	157	157	157
Retained earnings	2,849	2,897	3,795	4,468	5,258	6,086
Reserves/others	0	-	-	0	-	0
<b>Shareholder funds</b>	<b>2,999</b>	<b>3,047</b>	<b>3,953</b>	<b>4,626</b>	<b>5,415</b>	<b>6,243</b>
Minorities/other equity	24	0	0	0	0	0
<b>Total equity</b>	<b>3,023</b>	<b>3,047</b>	<b>3,953</b>	<b>4,626</b>	<b>5,415</b>	<b>6,243</b>
<b>Total liabs &amp; equity</b>	<b>8,310</b>	<b>7,380</b>	<b>7,586</b>	<b>8,595</b>	<b>9,623</b>	<b>10,588</b>
Total debt	3,927	3,152	2,399	2,689	2,779	2,769
Net debt	3,553	2,744	2,297	2,434	2,397	2,170
Adjusted EV	10,248	9,416	30,102	30,239	30,202	29,976
BVPS (Rs)	148.5	150.9	46.9	54.9	64.3	74.2

## Balance sheet ratios

Year to 31 March	2020A	2021A	2022A	2023CL	2024CL	2025CL
<b>Key ratios</b>						
Current ratio (x)	1.1	1.1	1.3	1.3	1.4	1.6
Growth in total assets (% YoY)	-	(11.2)	2.8	13.3	12.0	10.0
Growth in capital employed (% YoY)	-	(11.7)	7.9	13.0	10.7	7.7
Net debt to operating cashflow (x)	8.0	2.3	2.6	2.4	2.3	1.7
Gross debt to operating cashflow (x)	8.8	2.6	2.7	2.6	2.6	2.2
Gross debt to Ebitda (x)	8.0	5.2	2.1	1.7	1.5	1.3
Net debt/Ebitda (x)	7.3	4.5	2.0	1.6	1.3	1.0
<b>Gearing</b>						
Net debt/equity (%)	117.5	90.0	58.1	52.6	44.3	34.8
Gross debt/equity (%)	129.9	103.4	60.7	58.1	51.3	44.4
Interest cover (x)	0.5	1.2	4.0	6.1	6.3	7.1
Debt cover (x)	0.1	0.4	0.4	0.4	0.4	0.5
Net cash per share (Rs)	(175.9)	(135.8)	(27.3)	(28.9)	(28.5)	(25.8)
<b>Working capital analysis</b>						
Inventory days	274.9	365.4	477.0	445.1	402.5	408.2
Debtor days	114.1	130.2	100.2	88.4	91.8	91.2
Creditor days	132.7	163.4	195.9	193.6	182.9	185.5
Working capital/Sales (%)	60.2	64.6	60.0	53.7	52.2	50.7
<b>Capital employed analysis</b>						
Sales/Capital employed (%)	74.1	66.8	68.0	73.9	78.9	86.0
EV/Capital employed (%)	156.5	162.9	482.6	429.1	387.2	356.8
Working capital/Capital employed (%)	44.7	43.1	40.8	39.7	41.2	43.6
Fixed capital/Capital employed (%)	49.9	54.4	55.4	57.4	56.5	54.7
<b>Other ratios (%)</b>						
PB (x)	2.2	2.2	7.0	6.0	5.1	4.5
EV/Ebitda (x)	20.9	15.5	26.6	19.3	16.6	14.2
EV/OCF (x)	22.9	7.9	34.4	29.4	28.6	23.8
EV/FCF (x)	1,268.3	9.1	72.5	142.5	69.1	37.9
EV/Sales (x)	2.1	2.4	7.1	5.8	4.9	4.1
Capex/depreciation (%)	125.4	60.7	194.4	318.6	214.6	149.7

Source: www.clsa.com

## Cashflow (Rsm)

Year to 31 March	2020A	2021A	2022A	2023CL	2024CL	2025CL
Operating profit	139	352	897	1,311	1,528	1,795
Operating adjustments	(313)	(298)	(201)	(189)	(212)	(217)
Depreciation/amortisation	350	257	236	256	289	314
Working capital changes	18	482	(143)	(249)	(422)	(446)
Interest paid / other financial expenses	308	310	171	181	204	209
Tax paid	(114)	70	(167)	(280)	(329)	(394)
Other non-cash operating items	59	22	81	0	0	0
<b>Net operating cashflow</b>	<b>447</b>	<b>1,195</b>	<b>874</b>	<b>1,029</b>	<b>1,057</b>	<b>1,260</b>
Capital expenditure	(439)	(156)	(459)	(817)	(620)	(470)
<b>Free cashflow</b>	<b>8</b>	<b>1,040</b>	<b>415</b>	<b>212</b>	<b>437</b>	<b>790</b>
Acq/inv/disposals	-	-	(132)	-	-	-
Int, invt & associate div	(1)	(61)	23	26	30	34
<b>Net investing cashflow</b>	<b>(440)</b>	<b>(217)</b>	<b>(568)</b>	<b>(791)</b>	<b>(590)</b>	<b>(436)</b>
Increase in loans	761	(588)	(723)	300	100	-
Dividends	(109)	0	(194)	(168)	(197)	(355)
Net equity raised/others	(318)	(357)	305	(216)	(243)	(252)
<b>Net financing cashflow</b>	<b>333</b>	<b>(945)</b>	<b>(613)</b>	<b>(84)</b>	<b>(340)</b>	<b>(607)</b>
Incr/(decr) in net cash	340	34	(306)	153	126	217
Exch rate movements	-	-	-	-	-	-
<b>Opening cash</b>	<b>34</b>	<b>375</b>	<b>408</b>	<b>102</b>	<b>255</b>	<b>382</b>
<b>Closing cash</b>	<b>375</b>	<b>408</b>	<b>102</b>	<b>255</b>	<b>382</b>	<b>599</b>
OCF PS (Rs)	22.1	59.2	10.4	12.2	12.6	15.0
FCF PS (Rs)	0.4	51.5	4.9	2.5	5.2	9.4

## Cashflow ratio analysis

Year to 31 March	2020A	2021A	2022A	2023CL	2024CL	2025CL
<b>Growth (%)</b>						
Op cashflow growth (% YoY)	-	167.6	(26.9)	17.7	2.7	19.2
FCF growth (% YoY)	-	12,765.7	(60.0)	(48.9)	106.1	80.7
Capex growth (%)	-	(64.5)	194.4	78.0	(24.1)	(24.2)
<b>Other key ratios (%)</b>						
Capex/sales (%)	9.0	4.0	10.8	15.7	10.1	6.5
Capex/op cashflow (%)	98.2	13.0	52.5	79.4	58.6	37.3
Operating cashflow payout ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
Cashflow payout ratio (%)	-	-	-	16.3	18.7	28.2
Free cashflow payout ratio (%)	-	-	-	79.3	45.1	44.9

## DuPont analysis

Year to 31 March	2020A	2021A	2022A	2023CL	2024CL	2025CL
Ebit margin (%)	2.9	9.1	21.1	25.2	24.8	24.9
Asset turnover (x)	0.6	0.5	0.6	0.6	0.7	0.7
Interest burden (x)	(1.2)	0.2	0.8	0.9	0.9	0.9
Tax burden (x)	0.9	1.0	0.7	0.7	0.8	0.7
Return on assets (%)	1.5	4.3	9.0	12.2	12.6	13.3
Leverage (x)	2.7	2.6	2.1	1.9	1.8	1.7
ROE (%)	(5.3)	1.7	14.9	19.6	19.7	20.3

## EVA® analysis

Year to 31 March	2020A	2021A	2022A	2023CL	2024CL	2025CL
Ebit adj for tax	128	341	672	983	1,146	1,346
Average invested capital	6,832	6,441	6,244	6,843	7,624	8,302
ROIC (%)	1.9	5.3	10.8	14.4	15.0	16.2
Cost of equity (%)	12.8	12.8	12.8	12.8	12.8	12.8
Cost of debt (adj for tax)	7.3	7.7	6.0	6.0	6.0	6.0
Weighted average cost of capital (%)	11.8	11.9	11.6	11.6	11.6	11.6
EVA/IC (%)	(10.0)	(6.6)	(0.9)	2.7	3.4	4.6
EVA (Rsm)	(682)	(426)	(53)	188	260	381

Source: www.clsa.com



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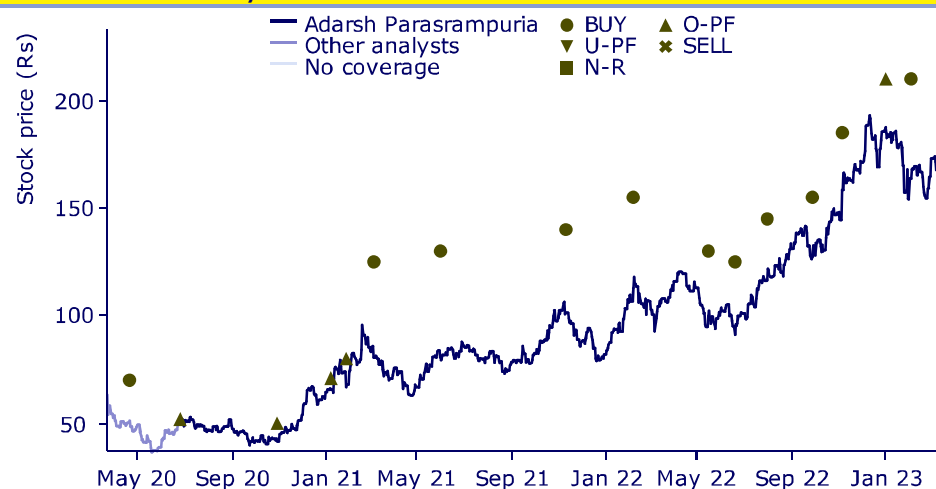
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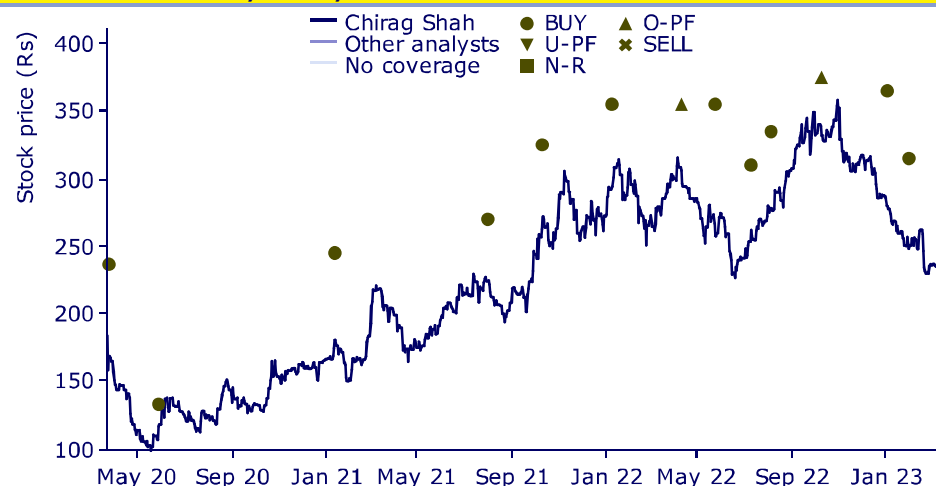
## Recommendation history of Bank of Baroda BOB IB



Date	Rec	Target	Date	Rec	Target
05 Feb 2023	BUY	210.00	11 Nov 2021	BUY	140.00
03 Jan 2023	O-PF	210.00	31 May 2021	BUY	130.00
07 Nov 2022	BUY	185.00	05 Mar 2021	BUY	125.00
29 Sep 2022	BUY	155.00	28 Jan 2021	O-PF	80.00
01 Aug 2022	BUY	145.00	08 Jan 2021	O-PF	71.00
20 Jun 2022	BUY	125.00	30 Oct 2020	O-PF	50.00
16 May 2022	BUY	130.00	25 Jun 2020	O-PF	52.00
07 Feb 2022	BUY	155.00	20 Apr 2020	BUY	70.00

Source: CLSA

## Recommendation history of Aditya Birla Fashion &amp; Retail Ltd ABFRL IN



Date	Rec	Target	Date	Rec	Target
02 Feb 2023	BUY	315.00	10 Jan 2022	BUY	355.00
05 Jan 2023	BUY	365.00	11 Oct 2021	BUY	325.00
11 Oct 2022	O-PF	375.00	01 Aug 2021	BUY	270.00
06 Aug 2022	BUY	335.00	13 Jan 2021	BUY	245.00
11 Jul 2022	BUY	310.00	28 May 2020	BUY	133.07*
25 May 2022	BUY	355.00	24 Mar 2020	BUY	236.57*
11 Apr 2022	O-PF	355.00			

Source: CLSA; \* Adjusted for corporate action

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