

November 24, 2023 (Revised)

Sula Vineyards Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Term Loan	227.0	153.8	[ICRA]A+ (Stable); Reaffirmed
Long-term/ Short-term – Fund-based/ Non-fund Based	185.0	180.0	[ICRA]A+ (Stable)/[ICRA]A1; Reaffirmed
Long-term/ Short-term – Unallocated	13.0	91.2	[ICRA]A+ (Stable)/[ICRA]A1; Reaffirmed
Total	425.0	425.0	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings of Sula Vineyards Limited (Sula/ the company) continues to consider the company's diversified revenue profile and dominant position in the domestic wine industry, along with its healthy profitability. During FY2023, Sula's operating profit margin (OPM) improved to 30.9% from 27.9% in FY2022, supported by an improvement in average realisations driven by increasing consumption of premium and elite wines, coupled with operating leverage benefits. The ratings also continue to factor in the demonstrated financial support from the promoters and other stakeholders, with Sula raising Rs. 99.3 crore equity in FY2023. The same resulted in an improvement in the company's debt coverage metrics, i.e., Total Debt/OPBITDA and interest coverage improved to 1.3x and 7.5x, respectively, in FY2023, from 2.0x and 5.1x, respectively, in FY2022.

The ratings, however, continue to remain constrained by the company's seasonal nature of wine and hospitality segment operations, where the revenues are typically higher during Q3 and Q4 of a financial year, along with the company's susceptibility to agroclimatic and inventory risks on account of its contractual obligation with farmers. The company procures grapes from farmers during the harvest season, which starts in January and ends in March. Due to the peak season in wine sales in Q3 and the harvest of wines grapes in Q4, the company is saddled with high inventory and debtor days leading to high working capital intensity during the financial year end, which stood at 53.2% in FY2023 against 59.3% in FY2022. Further, the company operates in a highly regulated industry with state-specific policies, which could impact industry volumes. Sula derives about 60% of its revenues from the wine segment from Maharashtra and Karnataka. Going forward, the risk of unfavourable policy changes in these key states continues to remain one of the major risk factors for the company as well as the industry. Sula is also exposed to rolling back of the Wine Industry Promotion Subsidy (WIPS) by the State Government of Maharashtra, which contributes significantly to the company's OPBITDA.

The company incurred capex of Rs. 71 crore in FY2023 towards cellar capacity expansion at Nashik, addition of rooms in the hospitality segment along with some maintenance capex, which was funded partly from term debt and partly from internal accruals and equity infusion. The company has similar capex plans going forward every year; any debt-funded capex leading to a deterioration in its financial risk profile or liquidity position will remain a key monitorable.

ICRA notes the company's potential liability to the tune of Rs. 115.89 crore towards excise duty payment. In 2006, the Maharashtra government came out with a notification that no excise duty was to be levied on wines manufactured from grapes cultivated and sold within Maharashtra. The cause of action for issuance of the Demand Notice arose from the interpretation of an ambiguous line, "without blending any other wine", in the said notification. The notification has since been revised with

prospective effect. Based on legal opinion, the management is confident that this matter will not result in cash outflow for the company. Sula had managed to obtain a stay order from the Bombay High Court with regard to the demand, which was subsequently vacated by the Excise Minister in July 2023. However, the company successfully filed a writ petition in the Bombay HC in August 2023, which set aside the Excise Order passed by the Minister. The developments in this regard will be a key rating monitorable. Any large potential obligation arising from it will need to be assessed when more information is available.

The Stable outlook reflects ICRA's expectations that Sula will maintain its healthy business and financial risk profile, going forward, and leverage its dominant position in the domestic wine industry over the near to medium term.

Key rating drivers and their description

Credit strengths

Market leadership in the wine industry supported by a vast portfolio of wine brands – Sula has a strong brand name with a dominant market share in the domestic wine industry, driven by its vast portfolio of wine brands across the price spectrum and an expansive distribution network. It produces more than 56 labels of red, white and sparkling wines and the brands are classified into 'elite', 'premium', 'economy' and 'popular' segments based on their price, composition, taste and other properties such as alcohol content. Going forward, increasing contribution from the elite and premium segments is expected to continue supporting Sula's revenues and margins over the long-term.

Diversified revenue profile – In addition to producing and selling wines, the company derives revenue from the hospitality segment through its two wine resorts, The Source at Sula and Beyond by Sula. Further, it has a dealership agreement with international brands like Beluga Vodka and Le Grand Noir to distribute core spirits in India. The wine segment drove ~72% of the company's revenues, while the hospitality and trading segments each accounted for ~14% and ~5% of its revenues, respectively, in FY2023, with income from WIPS accounting for the balance. In terms of profitability, the hospitality segment enjoys higher margins than the wine and trading segments. With increased capacities under the hospitality segment in FY2023 and further expansions planned in FY2024, revenue contribution from the same is expected to increase, going forward. The company has also increasingly been focusing on wine tourism, which has seen steady growth over the years with revenues of Rs.43.5 crore in FY2023 against Rs. 18.2 crore in FY2021.

Healthy profitability levels along with improvement in capital structure and coverage metrics in FY2023 – During FY2023, Sula's OPM improved to 30.9% over 27.9% in FY2022, supported by improving share of the premium and elite category wines in its revenues. The volume share of premium and elite category wines stood at around 70% in FY2023, which has improved gradually over the years, following the pandemic. Further, margins were also supported by operating leverage benefits. Supported by equity infusion of Rs. 99.3 in FY2023 and expansion in margins, the company's overall gearing improved to 0.4x in FY2023 from 0.6x in FY2022. Further, Sula's credit metrics marked by Total Debt/OPBITDA and interest coverage also improved to 1.3x and 7.5x, respectively, in FY2023, over 2.0x and 5.1x, respectively, in FY2022.

Credit challenges

Working capital-intensive nature of operations; exacerbated further by seasonality in sales and harvest season – The company's operations are working capital-intensive in nature with high inventory due to the harvest of wine grapes once a year in Q4, which is converted into wines and stored in tanks to be sold in the subsequent months (Q3 is the peak sales season for the industry). Sula extends 90-120 days' credit period to state run corporations. Due to the peak season in wine sales during Q3 and the harvest of wine grapes in Q4, the company is saddled with high inventory and debtor days leading to high working capital intensity during the financial year end.

Exposure to regulatory risks – The company operates in a highly regulated industry with state-specific policies, which continue to impact industry volumes in several markets. Sula derives about 60% of its revenue in the wine segment from sales in Maharashtra and Karnataka. Going forward, the risk of unfavourable policy changes in these key states continues to remain a major risk factor for the company and the industry. Further, extensive Government controls on advertising and taxes restrict wine industry growth to an extent. However, the same creates entry barriers for new players, thereby favouring incumbents such as Sula.

Susceptible to agroclimatic and inventory risks – The wine manufacturing industry is seasonal in nature. The quantity of grapes harvested each year is susceptible to weather conditions. Especially during the harvest months of January and March, prolonged rainfall and lack of wind can cause moisture in the grape and reduce its quality. The company is also susceptible to inventory risk that may arise from its contractual obligation with farmers in the absence of ample demand. This is mitigated to a certain extent by the company procuring a lower share of grapes through the open market; however, the price at which these grapes are procured will also be a key determinant of margins.

Exposure to roll back of WIPS, which contributes significantly to OPBITDA – The company is eligible for WIPS, which is applicable for all wines manufactured and sold in Maharashtra, wherein 80% of the VAT paid is received back in the form of subsidy. Although there is no sunset clause with respect to the subsidy, the company's profitability would be adversely impacted if the same is rolled back. The subsidy amount is currently built into the company's value chain, wherein it gives an incentive to the farmers. Overall, the collections with regard to the accrued subsidy in the last two fiscals has been lower than the earlier years resulting in sizeable increase in subsidy receivable to Rs. 113.7 crore as on March 31, 2023. Further, any non-payment or delayed payment from the Government would also affect the company's working capital cycle.

Environmental and Social Risks

Environmental considerations: Overall, the exposure to environmental risks is moderate for the company. Environmental risk for players in the Alcovary industry include discharge of hazardous and pollutant waste. The company's major waste is organic in nature, which is converted into organic compost and subsequently used in its vineyards. Further, Sula treats its wastewater discharge, which is reused for cooling towers and gardening purposes. Also, Sula has been taking steps to reduce greenhouse gas (GHG) emissions since its inception through best available technologies. The share of solar energy in its energy mix stood at 60% in 2022, while the company took new initiatives to reduce energy consumption from non-renewable sources.

Social considerations: The exposure to social risk is moderate for the company. This includes shifts in consumer tastes that can accompany changing demographics, as well as evolving regulatory and societal attitudes towards alcoholic products, which can affect demand. Further, Sula has high dependence on human capital. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. The company's FY2023 annual report indicates that it has worked on workplace diversity, community development initiatives and offered training to employees and other stakeholders to promote responsible consumption of alcohol.

Liquidity position: Adequate

Sula's liquidity position is adequate, primarily supported by expectations of healthy cash accruals for FY2024 and unutilised fund-based working capital limits (against sanctioned limits) of Rs. 36.0 crore as on September 30, 2023. Against the same, the company has debt repayments of Rs. 26.4 crore in FY2024 and capex of ~Rs. 60 crore in FY2024 towards cellar capacity expansion, the hospitality business, renewable energy and some maintenance capex, which would be funded through internal accruals of Rs. 24 crore and incremental term debt of ~Rs. 36 crore.

Rating sensitivities

Positive factors - Sula's rating could be upgraded if it is able to maintain its market leadership position in the domestic wine industry and exhibit sustained improvement in its revenues while maintaining its profitability margins and liquidity position.

Specific credit metrics, which could lead to a revision in rating, include interest coverage of more than 7.0 times on a sustained basis.

Negative factors – Negative pressure on Sula's rating could arise if there is any material deterioration in margins and if any debt-funded capex, or acquisitions or regulatory measures, lead to deterioration of the company's credit profile on a sustained basis. Further, a weakening liquidity position due to higher-than-expected capex could also result in a rating downgrade. Specific credit metrics that could lead to a revision in rating include Net Debt/OPBIDTA of more than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of Sula.

About the company

Incorporated in 1999, Sula Vineyard Limited manufactures, markets and distributes wines in the domestic market. Sula is headquartered in Nashik, Maharashtra, and has six manufacturing units—four in Nashik and two in the Bangalore region. Sula currently has a production capacity of over ~16 million litres per annum, of which ~14.3 million litres is housed in Nashik and ~1.3 million litres in Karnataka. The company diversified into the hospitality business in 2010, which provides higher margins than wines. The company owns two wine resorts, The Source at Sula and Beyond by Sula.

Key financial indicators (audited)

Sula Consolidated	FY2022	FY2023	H1FY24*
Operating income	422.4	515.3	242.2
PAT	52.1	84.0	36.8
OPBDIT/OI	27.9%	30.9%	30.8%
PAT/OI	12.3%	16.3%	15.2%
Total outside liabilities/Tangible net worth (times)	0.9	0.7	0.7
Total debt/OPBDIT (times)	2.0	1.3	1.9
Interest coverage (times)	5.1	7.5	6.3

*Based on limited audit

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
Term Loans	Long-term	153.8	102.0	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	--
Short Term - Fund Based	Short-term	--	--	--	--	[ICRA]A1	[ICRA]A1
Long Term/Short Term- Fund Based/ Non-fund Based limits	Long-term/ Short-term	180.0	--	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	--	--
Long Term/Short Term – Unallocated limits	Long-term/ Short-term	91.2	--	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Long Term/Short Term- Fund Based/ Non-fund Based limits	Simple
Long Term/Short Term – Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2022	NA	FY2027	153.8	[ICRA]A+ (Stable)
NA	Long Term/Short Term-Fund Based/ Non-fund Based limits	NA	NA	NA	180.0	[ICRA]A+ (Stable)/ [ICRA]A1
NA	Long Term/Short Term – Unallocated limits	NA	NA	NA	91.2	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company.

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Sula Ownership	Consolidation Approach
Artisan Spirits Pvt Ltd	100%	Full Consolidation

Source: Company

Corrigendum

Document dated November 24, 2023, has been corrected with revisions as detailed below:

Under the rating sensitivities section, sub-heading 'Negative triggers' has been changed to 'Negative factors'

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherla
91 80 43326407
mythri.macherla@icraindia.com

Karan Punjabi
+91 22 6169 3358
karan.punjabi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

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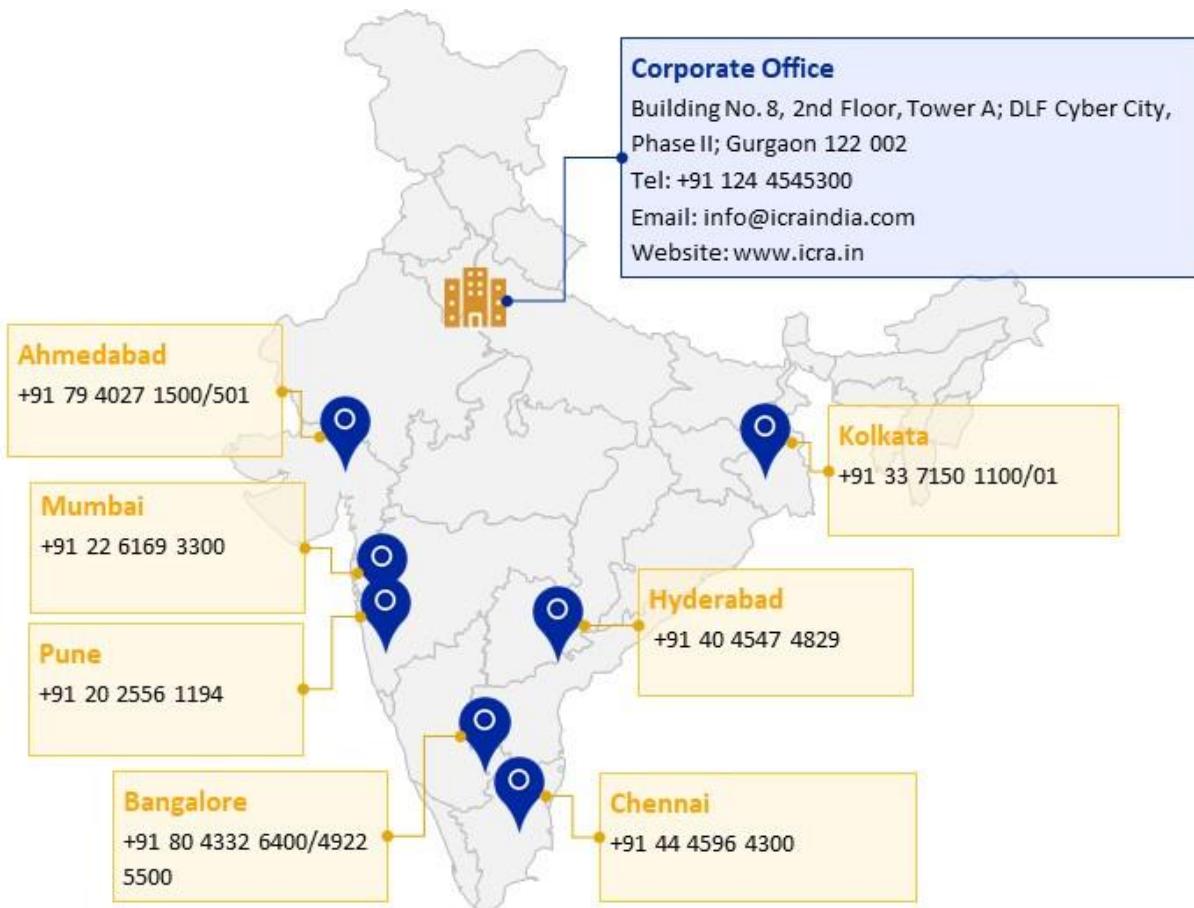
Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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