September 30, 2024

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	153.8	98.13	[ICRA]A+ (Stable); Reaffirmed
Long-term/ Short-term – Fund-based/ Non-fund Based	180.0	220.0	[ICRA]A+ (Stable)/[ICRA]A1; Reaffirmed
Long-term/ Short-term – Unallocated	91.2	106.87	[ICRA]A+ (Stable)/[ICRA]A1; Reaffirmed
Total	**425.0**	**425.0**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings for Sula Vineyards Limited (Sula/ the company) continue to consider the company's dominant position in the domestic wine industry, along with its diversified revenue profile and healthy profitability levels. In FY2024, the company reported revenue of Rs. 566.3 crore (Rs. 515.3 crore in FY2023), a YoY growth of ~10% supported by enhanced realisations in the wine segment and continued growth momentum in its wine tourism sales. Further, Sula's operating profit margin (OPM) remained healthy at 31.0% (30.9% in FY2023) in FY2024, supported by an improvement in average realisations, given the increasing consumption of premium and elite wines (which now account for ~75% of the company's total wine sales). The company's revenues from the wine tourism sales continue to support its overall business prospects and earnings. The ratings also factor in the company's healthy debt coverage metrics, with total debt/OPBITDA of 1.8 times as on March 31, 2024, and interest coverage of 6.7 times in FY2024.

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 in Q3 and Q4 of a financial year. Further, Sula's operations are susceptible to agro-climatic 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. Sula typically has high inventory and debtor days during the financial year-end due to the peak season in wine sales in Q3 and the harvest of wine grapes in Q4, leading to high working capital intensity. Further, the company operates in a highly regulated industry with state-specific policies, which could impact industry volumes.

Sula derives ~63% of its revenues in 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. That said, the company has been witnessing improved revenue share from other states such as Telangana. Sula is also exposed to the rolling back of the Wine Industry Promotion Subsidy (WIPS) by the State Government of Maharashtra, which contributes significantly to the company's OPBITDA. However, the company is expected to continue to benefit from WIPS subsidy until FY2028, as per the latest notification by the Maharashtra government, mitigating this risk in the near term. ICRA also notes that the company received a significant portion of receivables under the WIPS scheme (Rs. 92.1 crore) in FY2024, supporting its cash flows.

The company incurred a capex of ~Rs. 78 crore in FY2024 towards capacity expansion at Nashik, investment in renewable energy, addition of rooms in the hospitality segment, along with some maintenance capex, which was partially debt funded. ICRA also notes the sizeable dividend payouts made by the company in FY2024 (Rs. 78.0 crore) and Q1 FY2025 (~Rs. 38.0 crore), resulting in sizeable cash outflows. Going forward, the company is expected to incur ~Rs. 65-70 crore capex per annum. Any debt-funded capex/acquisition or sizeable dividend payout leading to a deterioration in its financial risk profile or liquidity position will remain a key monitorable.

ICRA further notes that the company had a disputed excise duty demand to the tune of Rs. 115.89 crore, and on March 7, 2024, the Minister for State Excise (Maharashtra) passed an order wherein the aforementioned demand has been set aside and the matter now stands disposed in the company's favour.

The Stable outlook reflects ICRA's expectations that Sula will continue to maintain its healthy business and financial risk profile by leveraging its dominant position in the domestic wine industry.

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 68 labels across 14 brands of red, white and sparkling wines and the brands are classified into – elite, premium, economy and popular segments – based on price, composition, taste and other properties such as alcohol content. Going forward, the increasing contribution from the elite and premium segments is expected to continue supporting Sula's revenues and margins.

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 and its wine tourism business. The wine segment accounted for ~72% of the company's revenues, while the hospitality/wine tourism and trading segments each accounted for ~16% and ~3% of its revenues, respectively, in FY2024, with income from WIPS accounting for the remaining. Going forward, the company is planning to open a resort at York Winery by adding ~30 rooms, which is expected to commence operations in FY2026. The company has also increasingly been focusing on wine tourism, which has witnessed steady growth over the years with revenues of Rs. 54.7 crore in FY2024 against Rs. 43.5 crore in FY2023.

Healthy financial profile, characterised by robust margins and healthy debt coverage metrices – In FY2024, the company witnessed revenue of Rs. 566.3 crore (Rs. 515.3 crore in FY2023), a YoY growth of ~10% supported by an improvement in its realisations in the wine segment and continued growth momentum in its wine tourism sales. Further, during FY2024, Sula's operating profit margin (OPM) remained healthy at 31.0% (30.9% in FY2023) supported by an improvement in average realisations given the increasing consumption of premium and elite wines (which now account for ~75% of the company's total wine sales). The company's revenues from the wine tourism sales continue to support its overall business prospects and earnings. The company's debt coverage metrices remain healthy, with total debt/OPBITDA of 1.8 times as on March 31, 2024, and interest coverage of 6.7 times in FY2024.

Credit challenges

Working capital-intensive nature of operations; exacerbated further by seasonality in sales and harvest season – The company's working capital intensity remains high at 49.1% in FY2024. The inventory is generally high during the year-end due to the harvest of wine grapes once a year in Q4. The grapes are then converted into wines and stored in tanks to be sold in the subsequent months (Q3 is the peak sales season for the industry). The debtor days were high as on the end of FY2024, primarily on account of a slowdown in the payouts by certain corporation markets, particularly Telangana, in addition to increasing sales to the CSD segment, which typically entails a higher receivable cycle. However, ICRA notes that the company received most of the dues from the Telangana government in 5M FY2025, which reduced the receivables to a certain extent.

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 ~63% of its revenue in the wine segment from sales in Maharashtra and Karnataka. However, the company is expected to witness growth in other markets, such as Telangana, Rajasthan and Haryana, which may reduce the concentration risk to a certain extent. That said, ICRA notes that the revenue contribution from other states, such as Telangana is increasing. Going forward, the risk of unfavourable policy changes in key states continues to remain a major risk factor for the company as well as for 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. During the harvest months of January and March, prolonged rainfall and lack of wind can cause moisture in grapes and reduce the quality. The company is also susceptible to inventory risk that may arise from its contractual obligation with farmers in the absence of ample demand. Sula tries to mitigate the agro-climatic risk to a certain extent by diversifying sourcing locations, using technology and advanced tools for crop monitoring. Further, the company's inventory risk is mitigated to a certain extent by procuring a reduced share of grapes through the open market. However, the price at which these grapes are procured will also be a key determinant for margins.

Exposure to rollback 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 in the form of subsidy. In Q4 FY2024, the Maharashtra government announced that the WIPS scheme will continue until FY2028, mitigating the risk of rollback in the near term. That said, any non-payment or delayed payment from the Government would also affect the company's cash flows. The subsidy amount is currently built into the company's value chain, wherein it gives an incentive to the farmers. In FY2024, WIPS accruals were ~Rs. 42 crore and WIPS received was ~Rs. 92 crore for the same fiscal. In Q1 FY2025, the company further received Rs. 10 crore worth of subsidy and the outstanding from the WIPS scheme as on June 30, 2024, was Rs. 84.1 crore.

Environmental and Social Risks

Environmental considerations: Overall, the exposure to environmental risks is moderate for the company. Environmental risks for players in the Alcobev industry include the 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 the best available technologies. The share of solar energy in its energy mix stood at 59% in FY2024, 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. Moreover, Sula has a high dependence on human capital, and retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. The company's FY2024 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 FY2025 and unutilized fund-based working capital limits (against sanctioned limits) of ~Rs. 25.0 crore as of June 30, 2024, along with free cash and liquid investments of Rs. 6.3 crore as on June 30, 2024. The average working capital utilisation remained high at ~78% over the 12 months ending July 2024. Against the same, the company has debt repayments of Rs. 31.2 crore in FY2025 and expects to incur a capex of ~Rs. 65 crore in FY2025 towards capacity expansion across segments in addition to maintenance capex, which would be funded through internal accruals and incremental term debt of ~Rs. 45 crore.

Rating sensitivities

Positive factors – Sula's rating could be upgraded if the company demonstrates significant improvement in its scale of operations and liquidity position while maintaining its profit margins and reducing its regional concentration. 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 Total 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 Vineyards Limited

About the company

Incorporated in 1999, Sula Vineyards Limited manufactures, markets and distributes wines in the domestic market. Sula is headquartered in Nashik with six manufacturing units, four in Nashik and two in Bangalore. At present, Sula has a production capacity of ~15.3 million litres, of which the Nashik facility has a capacity of ~13.5 million litres and the Bangalore facility contributes the remaining ~1.8 million litres. The company owns two wine resorts, Beyond Sula and the Source at Sula, both located in its manufacturing facility in Nashik. In Q1 FY2025, the company acquired a 100% shareholding in N D Wines Private Limited.

Key financial indicators (audited)

Sula Consolidated	FY2022	FY2023	FY2024
Operating income	422.4	515.3	566.3
PAT	52.1	84.0	93.3
OPBDIT/OI	27.9%	30.9%	31.0%
PAT/OI	12.3%	16.3%	16.5%
Total outside liabilities/Tangible net worth (times)	0.9	0.7	0.9
Total debt/OPBDIT (times)	2.0	1.3	1.8
Interest coverage (times)	5.1	7.5	6.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Sep 30, 2024	Date	Rating	Date	Rating	Date	Rating
Term Loans	Long Term	98.13	[ICRA]A+ (Stable)	24-Nov-23	[ICRA]A+ (Stable)	08-Sep-22	[ICRA]A+ (Stable)	06-Jan-22	[ICRA]A (Stable)
Long Term/Short Term- Fund Based/ Non-fund Based limits	Long-term/ Short-term	220.0	[ICRA]A+ (Stable)/[ICRA]A1	24-Nov-23	[ICRA]A+ (Stable)/ [ICRA]A1	08-Sep-22	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
Long Term/Short Term – Unallocated limits	Long-term/ Short-term	106.87	[ICRA]A+ (Stable)/[ICRA]A1	24-Nov-23	[ICRA]A+ (Stable)/ [ICRA]A1	08-Sep-22	[ICRA]A+ (Stable)/ [ICRA]A1	06-Jan-22	[ICRA]A (Stable) / [ICRA]A1
Short Term - Fund Based	Short Term			-	-	-	-	06-Jan-22	[ICRA]A1
				-	-	-	-	09-Jul-21	[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	98.13	[ICRA]A+ (Stable)
NA	Long Term/Short Term- Fund Based/ Non-fund Based limits	NA	NA	NA	220.00	[ICRA]A+ (Stable)/ [ICRA]A1
NA	Long Term/Short Term – Unallocated limits	NA	NA	NA	106.87	[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
N D Wines Private Limited	100%	Full Consolidation

Source: Company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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