July 09, 2021(Revised)

Sula Vineyards Private Limited: [ICRA]A1 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short-term Fund-Based	50.00	[ICRA]A1; assigned
Total	**50.00**	

Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in Sula Vineyards Private Limited's (Sula) strong market position with a dominant market share in domestic wine industry, its vast portfolio of wine brands across the price spectrum and an expansive distribution network. The rating also favourably factors in the diversification of the company's revenue across hospitality segment and trading segment in addition to its wine business. The wine segment contributed ~90% of revenue while the hospitality and trading segment contributed 10% of revenue in FY2021. While the highly regulated nature of the wine industry with extensive Government controls on advertising and taxes restricts growth to an extent, the same creates entry barriers for new players thereby favouring incumbents such as Sula. ICRA also takes comfort from the commitment provided by Verlinvest group that it is a long-term investor and will provide additional need-based financial support to Sula, if required.

In FY2021, Sula's revenues declined by 28.1% to Rs. 347.1 crore from Rs. 485.1 crore in FY2020 due to the Covid-19 pandemic and the resultant lockdown impacting sales across all segments. Further, the sales were impacted in Q4 FY2021 due to the ongoing second wave of Covid-19 pandemic. The operating margins, however, expanded to 18.2% in FY2021 from 11.4% in FY2020 on the back of various cost cutting measures such as changes in parameters stipulated in contract farming with farmers leading decline in raw-material cost, procuring bottles from local vendors at a lower cost than imports etc., which enabled the company to improve the operational efficiency. Going forward, the company is expected to sustain the improved operating margin in the medium term.

The rating also factors in the seasonal nature of wine and hospitality segments where the revenues are generally high during Q3 and Q4, and low during Q1 and Q2 in a financial year. Further, 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 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. Further, the working capital intensity remains high due to high wine industry promotion subsidy (WIPS) receivables from Government of Maharashtra. Consequently, the coverage indicators remain moderate with TD/OPBIDTA of 4.9 times as on March 31, 2021, and interest cover of 1.9 times in FY2021 due to high debt levels as a result of seasonality nature of business.

The company is planning to incur a total capex of ~Rs. 55-60 crore in FY2022, out of which Rs. 19.0 crore will be utilized towards acquiring York vinery which will enable the company to add around 1 million liters to its overall capacity. Further, the company is planning to incur a capex of ~Rs. 5-6 crore towards expansion of hospitality segment by adding rooms to its existing capacity. The rest of the capex would be towards maintenance and upgradation capex and is largely discretionary in nature. The capex is proposed to be funded through a mix of debt and equity. Going forward, despite sizeable repayments in FY2022, the coverage indicators are expected to remain moderate due to the incremental debt which will be availed by the company.

The company operates in a highly regulated industry with state-specific policies which could impact industry volumes. Sula derives more than 50% of revenue in wine segment from Maharashtra and Karnataka. Going forward, the risk of unfavourable policy changes in key states continues to remain one of the key risk factors for the company and the industry. Further, even while Sula commands a strong market share in the domestic market, presence of other large international players continues to impact the overall competitive scenario in the industry.

The company has a cash balance of Rs. 44.0 crore as on March 31, 2021 which is expected to decline in Q1 FY2021 as the company typically incurs operating losses given the relatively lower volumes. Further, the company has a limited buffer in terms of undrawn working capital limits against drawing power. However, ICRA takes comfort from the fact that the company enjoys strong financial flexibility on the back of the commitment from Verlinvest that is a long-term investor and will provide additional need-based financial support to Sula, if required.

Key rating drivers and their description

Credit strengths

Established position in the wine industry – Sula has a strong market position with a dominant market share in domestic wine industry, driven by its vast portfolio of wine brands across the price spectrum and an expansive distribution network. Sula produces more than 100 brands of red wine and the brands are classified into 'Premium' and 'Regular' segments based on their price, composition, taste and other properties like alcohol content. Going forward, the increasing contribution from the premium segment is expected to support the company's margins over the longer term. Sula's Shiraz brand contributes majority of the revenue in wine segment contributing 26.0% of total revenue from wine sales in FY2021.

Diversified revenue profile – In addition to producing and selling wines, the company also derives revenue from hospitality segment through its two wine resorts, Beyond Sula and the Source at Sula. Further, the company has dealership agreement with international brands such as Remy Martin, Beluga Vodka and Asahi Beer to distribute its bulk wine and other core spirits drink in India. This enables the company to expand its sales distribution network by providing a package of Sula wines and other international branded wines and core spirits to its distributors. The wine segment contributed ~90% of revenue while the hospitality and trading segment each contributed ~5% of revenue in FY2021. In terms of profitability, the hospitality segment provides higher margins than the wine segment and trading segment. With ongoing capex to increase capacities under the hospitality segment, revenue contribution from the same is expected to increase going forward.

Strong financial flexibility – Verlinvest group, a family-owned investment group company based out of Belgium (focused on investing in consumer brands, especially in food and beverage industry) is a significant shareholder in Sula. Verlinvest group has been invested in Sula for more than 10 years. ICRA takes comfort from the commitment by Verlinvest group that it is a long-term investor and will provide additional need-based financial support (either in the form of equity or a bridge loan) to Sula on short-notice, if the need for the same arises.

Credit challenges

Working capital-intensive nature of operations; exacerbated further by seasonality in sales and harvest season – The operations of the company are working capital-intensive in nature with high inventory due to the harvest of wine grapes happening once a year in Q4 which is converted into wines and stored in company's storage tanks to sell it in subsequent months (Q3 is the peak sales season for the industry). The company extends 120 days credit period to its customers as it sells its wine predominately to distributors who pay after selling the bottles to their end customers. Due to the peak season in wine sales 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. Further, the working capital intensity remains high due to high wine industry promotion subsidy (WIPS) receivables from Government of Maharashtra

Financial risk profile characterised by moderate coverage metrics – The company's financial profile is characterised by moderate coverage indicators with TD/OPBIDT of 4.9 times as on March 31, 2021, and interest cover of 1.9 times in FY2021 due to high debt levels as a result of seasonality nature of business. Further, the company is planning to incur a total capex of ~Rs. 55-60 crore in FY2022 which is proposed to be funded through a mix of debt and equity. Going forward, despite sizeable repayments in FY2022, the coverage indicators are expected to remain moderate due to the incremental debt which will be availed by the company.

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 more than 50% of revenue in wine segment from Maharashtra and Karnataka. Going forward, the risk of unfavourable policy changes in key states (such as withdrawal of WIPS) continues to remain one of the key risk factors for the company and the industry. Further, with extensive Government controls on advertising and taxes restricts wine industry growth to an extent. However, the same creates entry barriers for new players thereby favouring incumbents such as Sula.

Liquidity position: Adequate

The company has a cash balance of Rs. 44.0 crore as on March 31, 2021 which is expected to decline in Q1 FY2022 as the company typically incurs operating losses given the relatively lower volumes. The company has a repayment obligation of Rs. 39.3 crore in FY2021 out of which Rs. 9.8 crore is to be paid during Q1 FY2021. The average utilization of fund-based limits stood at ~96% against drawing power for the 14-month period ending May 2021. Though the company has limited buffer in terms of undrawn working capital limits against drawing power (Rs. 7.0 crore as on March 31, 2021), ICRA takes comfort from the fact that the company enjoys strong financial flexibility on the back of the commitment from Verlinvest that it will provide additional need-based financial support to Sula, if required.

Rating sensitivities

Positive factors - Sula's ratings could be upgraded if it is able to maintain its market leadership position in the domestic wine industry, integrate its recent acquisition successfully with its current operations, and exhibit sustained improvement in its revenues, profitability and liquidity position. Specific credit metrics which could lead to a revision in rating include Net Debt/OPBIDTA of less than 3.0 times on a sustained basis.

Negative factors – Negative pressure on Sula's ratings could arise if there is any material deterioration in margins and, debt-funded capex or acquisitions or regulatory measures lead to deterioration of the company's credit profile on a sustained basis. Further, weakening liquidity position due to higher-than-expected capex could also result in a downgrade. Specific credit metrics which could lead to a revision in rating include Net Debt/OPBIDTA of more than 4.0 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 Private Limited (Sula) is involved in manufacturing, marketing and distribution of wines in the domestic market. Sula is headquartered in Nashik, 180 Km northeast of Mumbai, and has two manufacturing units, one located in Nashik and one in the Bangalore region of Karnataka. Sula currently has production capacity of over 13 million liters, of which 11 million liters is housed in Nashik and 2 million liters is housed in Karnataka. After the launch of its first wine in 2000, Sula expanded its wine portfolio and currently has more than 100 in-house brands. To support the expansion, the company expanded its grape procurement area from its 30-acre family estate to almost 3000 acres (including contract farming) spread across Nashik and Bangalore region. The company owns two wine resorts, Beyond Sula and the Source at Sula, both present in its manufacturing facility at Nashik, offering a wide range of room types and services.

Key financial indicators (audited)

Blue Standalone	FY2019	FY2020	FY2021*
Operating Income (Rs. crore)	500.8	485.2	347.1
PAT (Rs. crore)	7.2	-13.5	6.0
OPBDIT/OI (%)	15.8%	11.4%	18.2%
RoCE (%)	8.5%	2.3%	5.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.8	1.5
Total Debt/OPBDIT (times)	3.7	7.1	4.9
Interest Coverage (times)	3.2	1.7	1.9
DSCR (times)	1.7	1.2	1.1

**Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)*

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2022)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as of Mar 31, 2020 (Rs. crore)</th><th>Date & Rating in</th><th>Date & Rating in FY2021</th><th>Date & Rating in FY2020</th><th>Date & Rating in FY2019</th></tr>
<tr><th>9-July-2021</th><th>-</th><th>-</th><th>-</th></tr>
<tr><td>1</td><td>Short-term Fund-Based</td><td>Short Term</td><td>50.0</td><td>--</td><td>[ICRA]A1</td><td>-</td><td>-</td><td>-</td></tr>
</table>

Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Short-term Fund-Based	Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Lender details	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
HDFC Bank	Short-term Fund-Based	-	-	-	50.0	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Sula Ownership	Consolidation Approach
Artisan Spirits Pvt Ltd	100%	Full Consolidation
Progressive Alcobev Distributors Private Ltd	51%	Full Consolidation

Not Applicable

Corrigendum

Details of lenders have been updated in Annexure 1

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 937922486
kinjal.shah@icraindia.com

Mythri Macherla
+91 9701191490
mythri.macherla@icraindia.com

Harish Suresh
+91 8523969083
harish.s@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches