January 06, 2022

Sula Vineyards Private Limited: rating reaffirmed for existing limits; [ICRA]A (Stable)/[ICRA]A1 assigned to enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based Term Loan	-	172.0	[ICRA]A (Stable); assigned
Short Term - Fund Based	50.0	231.2	[ICRA]A1; Reaffirmed on the existing limit and assigned to the enhanced limit
Long Term/Short Term – Unallocated	-	71.8	[ICRA]A(Stable)/[ICRA]A1; assigned
Total	**50.0**	**475.0**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings continue to factor in Sula Vineyards Private Limited's (Sula/The company) strong market position with a dominant market share in the domestic wine industry, its vast portfolio of wine brands across the price spectrum and an expansive distribution network. The rating favourably factors in the company's revenue diversification across the hospitality and trading segments, in addition to its wine business. The company's revenue growth was healthy at 45% in 8M FY2022 supported by strong revival in demand driven by increasing share of elite and premium wine volumes, relatively higher home consumption of wine and sizeable volume ramp up in key markets post local lockdowns in Q1 FY2022. Overall, the company is expected to witness healthy revenue growth in FY2022. The operating margins expanded to 24.7% in 8M FY2022 from 16.9% in FY2021 on the back of healthy operating leverage in addition to continued benefits from various cost optimisation measures implemented in FY2021. Overall, ICRA expects the company to report healthy growth in both revenue and profitability in FY2022 given strong performance in December 2021 and lower impact on the sales volume from impending third wave of Covid-19 pandemic during the lean months of January and February 2022.

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. The company has raised an equity capital of Rs. 35.4 crore in H1 FY2022 from the promoters and other investors which has been utilised towards funding its working capital requirement in turn supporting its liquidity position. ICRA expects the company to receive further equity infusion (primarily from the promoter) in the near term.

The rating also continues to factor in the seasonal nature of wine and hospitality segments, where the revenues are relatively higher during Q3 and Q4 of 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. Though the coverage indicators improved in 8M FY2022 from FY2021 on the back of improved margins and reduction in overall debt levels (supported by increased cash accruals and equity infusion), the same, however, continues to remain moderate with TD/OPBIDTA of 2.7 times as on November 30, 2021, and interest cover of 3.7 times in 8M FY2022.

The company operates in a highly regulated industry with state-specific policies, which could impact industry volumes. Sula derives more than 50% of revenue from the 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.

While Sula commands a strong market share in the domestic market, the presence of other large international players continues to impact the overall competitive scenario in the industry.

Key rating drivers and their description

Credit strengths

Established position in wine industry – 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 about 56 domestic labels under 13 brands which are classified into Elite, Premium, Economy and Popular segments based on their price, composition, taste and other properties such as alcohol content. Going forward under the premiumisation strategy, increasing contribution from the Elite and Premium segments is expected to support the company's revenues and margins over the longer term.

Diversified revenue profile – In addition to producing and selling wines, the company derives revenue from the hospitality segment through its two wine resorts, Beyond Sula and the Source at Sula. Further, it has dealership agreements with international brands such as Le Grand Noir, Hardys, Beluga Vodka etc., to distribute imported wine and other core spirits in India. This enables the company to expand its sales distribution network by providing a package of Sula wines, other international branded wines and core spirits to its distributors. The wine segment contributed to ~84% of its revenue, while the hospitality and trading segment each accounted for ~8% of its revenue in 8M FY2022. In terms of profitability, the hospitality segment enjoys relatively higher margins than the wine segment and trading segment. With the increased capacities under the hospitality segment in FY2022, revenue contribution from the same has increased & is expected to increase further going forward.

Healthy revival in volumes in 8M FY2022: The company's revenue growth was healthy at 45% in 8M FY2022 supported by strong revival in demand driven by increasing share of elite and premium wine volumes, relatively higher home consumption of wine and sizeable volume ramp-up in key markets post local lockdowns in Q1 FY2022. Overall, the company is expected to witness healthy revenue growth in FY2022.

Equity infusion in FY2022 to support liquidity position: The company has raised an equity capital of Rs. 35.4 crore in H1 FY2022 from the promoters and other investors which has been utilised towards funding its working capital requirement in turn supporting its liquidity position. ICRA expects the company to receive further equity infusion from the promoters in the near term. This is expected to provide further support the liquidity position of the company.

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 happening once a year in Q4, which is converted into wines and stored in storage tanks to be sold in the subsequent months (Q3 is the peak sales season for the industry). The company sells its wine predominately to state corporations, who pay the company after selling the same to retailers. 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.

Financial risk profile characterised by improving but moderate coverage metrics Though the coverage indicators improved in 8M FY2022 from FY2021 on the back of improved margins and reduction in overall debt levels (supported by increased cash accruals and equity infusion), the same, however, continues to remain moderate with TD/OPBIDTA of 2.7 times as on November 30, 2021, and interest cover of 3.7 times in 8M FY2022. The company is planning to incur a capex of ~Rs. 72-75 crore in FY2022 and has already incurred a capex of Rs. 45.8 crore as on November 30, 2021. The company has availed a term loan of Rs. 17.5 crore to fund the capex plan and the rest is expected to be funded from internal accruals. The company is expected to incur a capex of ~Rs. 70.0-72.0 crore in FY2023 and the same is expected to be funded through a mix of debt and internal accruals. Going forward, though there will be incremental debt availed by the company, the coverage indicators are expected to improve on the back of expected increase in cash accruals.

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 its revenue in the wine segment from sales done 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, the 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 the incumbents such as Sula.

Liquidity position: Adequate

The company reported a free cash balance of Rs. 8.9 crore as on November 30, 2021. The company has a repayment obligation of Rs. 35.4 crore in FY2022. The average utilization of the company's fund-based limits stood at ~92% against drawing power for the 12-month period ending November 2021. That said, ICRA notes that as on November 30, 2021, the company has an undrawn working capital limits of ~Rs. 42.0 crore against the drawing power. Going forward, incremental equity infusion in the near term is expected to provide additional support to the liquidity position of the company.

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, 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 rating 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 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)

Consolidated	FY2020	FY2021	8M FY2022*
Operating Income (Rs. crore)	485.2	385.4	244.8
PAT (Rs. crore)	-13.5	2.8	28.9#
OPBDIT/OI (%)	11.4%	16.9%	24.7%
RoCE (%)	2.3%	5.4%	10.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.5	1.0
Total Debt/OPBDIT (times)	7.1	4.8	2.7
Interest Coverage (times)	1.7	2.0	3.7
DSCR (times)	1.2	1.0	1.3

**Provisional, unaudited;#PBT: Profit before Tax; 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)*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Nov 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					06-Jan-2022	15-June-2021	-	-	-
1	Long Term – Fund Based Term Loan	Long Term	172.0	78.4	[ICRA]A (Stable)	-	-	-	-
2	Short Term - Fund Based	Short Term	231.2	135.7	[ICRA]A1	[ICRA]A1			
3	Long Term/Short Term – Unallocated	Long Term/Short Term	71.8	-	[ICRA]A (Stable)/[ICRA]A1				

Complexity level of the rated instrument

Instrument Name	Complexity Indicator
Long Term – Fund Based Term Loan	Very Simple
Short Term - Fund Based	Simple
Long Term/Short Term – Unallocated	NA

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Kotak Mahindra Bank	Long Term – Fund Based Term Loan	**FY2022***	-	FY2024	85.0	[ICRA]A (Stable)
HDFC Bank	Long Term – Fund Based Term Loan	**FY2022***	-	FY2025	59.5	
Yes Bank	Long Term – Fund Based Term Loan	**FY2022***	-	FY2024	10.0	
Axis Bank	Long Term – Fund Based Term Loan	**FY2022***	-	FY2027	17.5	
Kotak Mahindra Bank	Short Term - Fund Based	-	-	-	20.0	[ICRA]A1
HDFC Bank	Short Term - Fund Based	-	-	-	55.0	
Yes Bank	Short Term - Fund Based	-	-	-	21.0	
Axis Bank	Short Term - Fund Based	-	-	-	60.0	
Saraswat Bank	Short Term - Fund Based	-	-	-	75.2	
NA	Long Term/Short Term – Unallocated	-	-	-	71.8	[ICRA]A (Stable)/[ICRA]A1

Source: *Company; *as per latest sanction letter*

Annexure-2: List of entities considered for consolidated analysis

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

Not Applicable

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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.

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.

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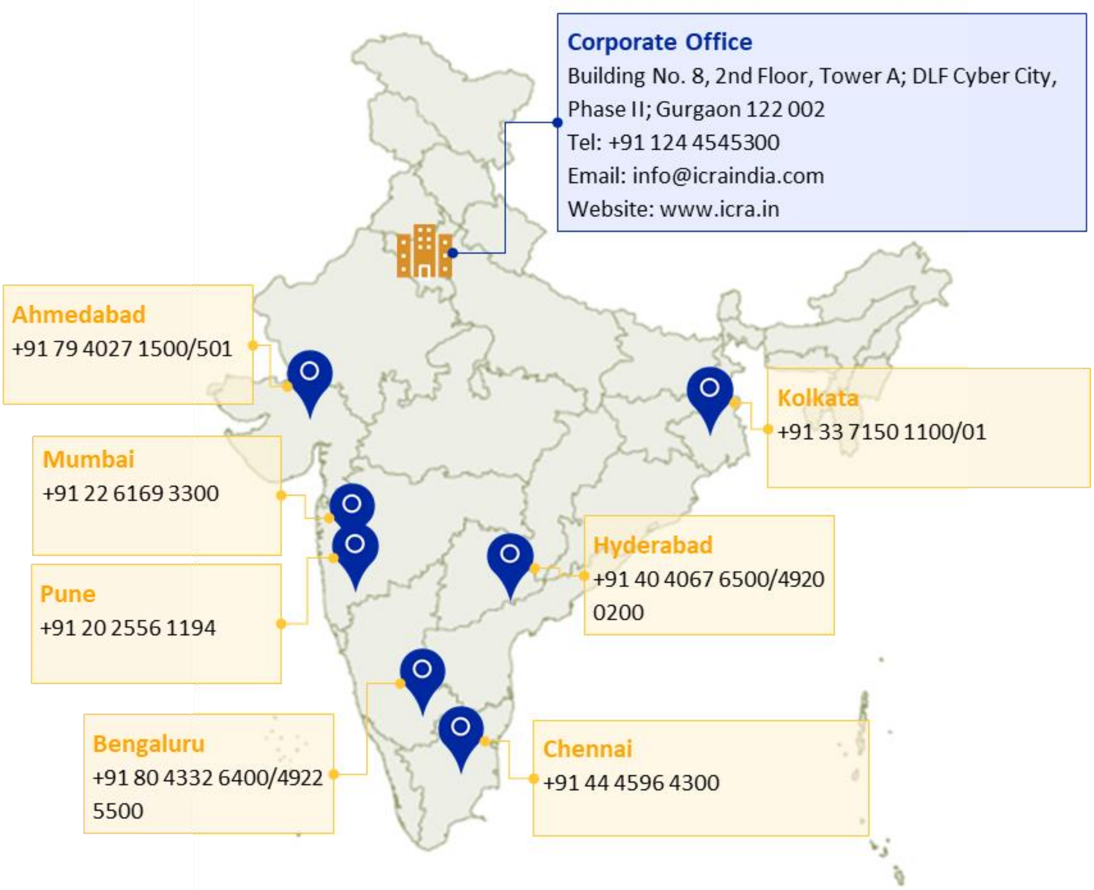

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