RESULT

kotak Institutional Equities

Sula Vineyards (SULA)

Consumer Staples

ADD

CMP(₹): **249** | Fair Value(₹): **260** | Sector View: **Attractive** | NIFTY-50: **25,695** | **November 12, 2025**

No respite

Sula reported another weak quarter, as own brands' revenue declined 2.4% yoy, led by a 3.3% yoy decline in elite & premium wines due to trade destocking in Telangana. EBITDA margin declined 595 bps yoy to 19.4% (KIE: 20.4%), as Sula's tight leash on operating costs had partly offset the sharp GM decline (weak mix and change in the wine sourcing model for the tourism business). The path to growth and margin recovery appears uncertain, given the headwinds in core markets such as MH and the potential EU FTA, which could lower MIP from US$5 and significantly increase competition from the imported brands. We cut FY2026-28E EPS by 10-11% and revise FV to Rs260 (Rs280 earlier), valuing the company at 30X December 2027E PE.

2QFY26: Weak growth print; profitability partly aided by cost cuts

Sula Vineyards' gross revenue declined ~1% yoy to Rs1.4 bn (4.7% below our estimate). Own brands/hospitality revenue grew (-)2.4%/8.2% yoy (KIE: +2.5%/ 12% yoy). Own brands' performance was weak, as growth was impacted by RTM disruption in the TG market. Ex-TG market, own brands' revenue growth was in mid-single digits yoy. Elite and premium wine value declined 3.3% yoy (KIE: +3% yoy). Economy and popular wines grew 0.6% yoy (KIE: flat yoy). Net revenue fell ~1% yoy to Rs1.3 bn (4.5% miss). Excise duty as a percentage of gross sales stood at 6.3%.

GM declined 990 bps yoy to 69% (KIE: 74%) due to (1) a change in the wine sourcing model for the wine tourism business (400 bps yoy), (2) negative state and product mix (400 bps yoy) and (3) high inventory cost (150 bps). EBITDA declined 24.2% yoy to Rs255 mn (KIE: Rs279 mn) and EBITDA margin declined ~595 bps yoy to 19.4% (KIE: 20.4%), as the sharp GM decline yoy was partly offset by strong control over operating costs. Employee costs/other expenses fell 2.7%/11.3% yoy to Rs232 mn/Rs417 mn (7.3%/14% below estimates). PBT/recurring PAT decreased 54.3%/58.4% yoy to Rs83 mn/Rs60 mn (~32%/33% miss).

Uncertain growth and profitability outlook amid multiple headwinds

Sula's net sales declined 1.1% yoy, impacted by trade destocking in TG (~15% salience) due to retail license expiry. However, positive growth in MH and mid-single digit growth yoy in markets, ex-TG, were partly encouraging. The profitability was weak (EBITDA down 24.2% yoy), as GM was sharply hit by a change in the wine sourcing model for wine tourism, high-cost inventory and weak state/product mix. Most of these ongoing margin-related headwinds are expected to phase out, with Sula projecting ~250 bps yoy EBITDA margin expansion in 2H. That said, the medium-term growth and margin outlook faces key overhangs such as (1) uncertain demand trends in MH amid high competition from local players, aggressive discounting and sustained urban weakness and (2) the impending EU FTA, which could lower MIP (below US$5) and intensify competition from the imported wines. To mitigate the potential EU FTA impact, Sula plans to refocus on its wine imports business, though it will likely exert pressure on margins.

We cut estimates by 10-11% and revise FV to Rs260

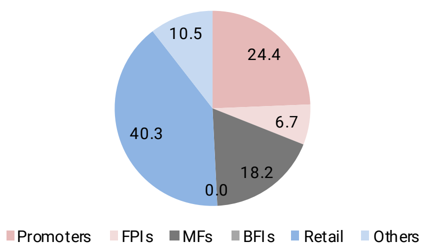
We cut volume growth and margin estimates, factoring in near-term issues. Net-net, we cut our FY2026-28E EPS by 10-11%, roll over and revise FV to Rs260 (from Rs280), valuing the company at 30X December 2027E PE (unchanged).

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	249/260/ADD
52-week range (Rs) (high-low)	456-242
Mcap (bn) (Rs/US$)	21/0.2
ADTV-3M (mn) (Rs/US$)	282/3.2

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	(3)	0	(40)
Rel. to Nifty	(5)	(5)	(46)
Rel. to MSCI India	(5)	(5)	(45)

Forecasts/Valuations	2026E	2027E	2028E
EPS (Rs)	6.3	7.6	9.0
EPS growth (%)	(24.0)	19.5	19.1
P/E (X)	39.3	32.9	27.6
P/B (X)	3.4	3.1	2.9
EV/EBITDA (X)	17.3	15.5	13.7
RoE (%)	8.8	9.9	11.0
Div. yield (%)	0.8	0.9	1.3
Sales (Rs bn)	5.9	6.5	7.2
EBITDA (Rs bn)	1.4	1.5	1.7
Net profits (Rs bn)	0.5	0.6	0.8

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of November 11, 2025

Related Research

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Conference call takeaways

- **Growth performance highlights.** (1) Own brands growth in 2Q was impacted by RTM disruption, following retail license expiry in the Telangana market (third largest after MH and KA; ~15% of total sales), which led to trade destocking. The recovery is expected as the supply transition has been completed and retail operations with new licenses will commence in December. (2) Adjusted for Telangana, own brands revenue grew in mid-single digits. (3) MH witnessed growth recovery, with the market posting positive growth in 2Q. Despite aggressive discounting by peers, per-state corporation data, Sula gained market share and expects momentum in MH to sustain in coming quarters. (4) The Source range delivered high double-digit yoy growth, with salience improving to ~10% from negligible levels a few years ago. Sula is expanding its footprint into new states (Haryana and Delhi). (5) Sula registered DD growth across eight markets (includes Haryana, UP, Rajasthan, Pondicherry, etc.). (6) CSD channel sales doubled yoy. (7) Popular and economy wines delivered positive growth, led by brand activation efforts, strategic call to outsource it to third-party in MH market, etc. Overall, Sula anticipates improved performance in 2H, driven by stronger demand conditions, higher WIPS and sustained traction in the wine tourism business.

- **Margin outlook.** GM declined ~990 bps yoy to 69% due to (1) a change in wine sourcing model for the wine tourism business, which had ~400 bps impact yoy; this is expected to normalize from 3QFY26E. (2) weak state and product mix – the TG market, where elite and premium wines had 90%+ salience, was disrupted due to trade issues. Additionally, strong growth in low-profitability states and the CSD channel contributed to a ~400 bps GM impact yoy. (3) high-cost inventory – ~150 bps impact, which should normalize in the coming quarters as inventory phases out. EBITDA margin contracted 595 bps yoy to 19.4%, as the GM decline was partly offset by stringent cost controls, resulting in a sharp reduction in overheads (-8% yoy). Going ahead, Sula anticipates ~250 bps yoy improvement in EBITDA margins in 2H, supported by higher WIPS accrual (realized Rs60 mn less WIPS incentive than deemed in 2HFY25 due to capping regulation) and the phasing out of margin-related headwinds observed in recent quarters.

- **Wine tourism updates.** Wine tourism witnessed 8% yoy growth, enabled by LSD growth in footfalls and per guest spend and a 350 bps increase resort occupancy (at 77%). Sula launched its new resort, The Haven by Sula, near York Winery (Nashik) in October, which will expand overall room capacity by 30 keys to 134 keys (~30% growth). The capital investment was done by a third party, while Sula will maintain the property. Sula's tasting room and restaurant expansion at Domaine Sula (Karnataka) will be operational by end-3Q. Sula has one more resort with 20 keys to be opened in FY2027E.

- **EU FTA updates.** Sula noted that the current minimum import price (CIF), which stands at US$5 per bottle, could come down (most likely scenario). If the EU deal materializes and minimum import price comes down, there could be a good traction for import brands. However, Sula believes that its own brands will not be materially and directly impacted. However, to address the shift, Sula plans to revisit its wine imports business, which was deprioritized earlier to focus on profitability. At a reduced MIP, Sula could operate the imports business with improved profitability versus previous levels by leveraging its distribution infrastructure, though profitability will remain below that of the own brands.

- **Capex** in the last three years averaged at Rs500-600 mn. Going ahead, from FY2026E, this is expected to moderate to Rs300-350 mn, as most of the capex commitments are concluded.

- **WIPS** outstanding in 2Q stood at Rs800 mn (versus Rs700 mn in 4Q-end), as Sula accrued Rs200 mn and received Rs130 mn payout from the government. It further received Rs110 mn in October, which reduced the total outstanding value to ~Rs700 mn.

- **Net debt** rose to Rs3.5 bn due to low profitability and increased receivables (TG issues; collections are normalized in October) and net debt/EBITDA stood at 2.5X.

Exhibit 1: Sula Vineyards - Interim consolidated results, March fiscal year-ends (Rs mn)

					(Change %)								
	2QFY26	2QFY26E	2QFY25	1QFY26	2QFY26E	yoy	qoq	1HFY26	1HFY25	yoy (%)	FY2026E	FY2025	yoy (%)
Gross revenues	**1,397**	**1,466**	**1,412**	**1,183**	**(4.7)**	**(1.1)**	**18.1**	**2,580**	**2,697**	**(4.3)**	**6,361**	**6,194**	**2.7**
Excise	(88)	(95)	(89)	(87)	(8.1)	(1.1)	1.2	(174)	(164)	6.4	(426)	(402)	6.0
Excise as % of gross rev	**6.3**	**6.5**	**6.3**	**7.3**	**-24 bps**	**-1 bps**	**-105 bps**	**6.7**	**6.1**	**67 bps**	**6.7**	**6.5**	**21 bps**
Net operating revenues	**1,309**	**1,370**	**1,324**	**1,096**	**(4.5)**	**(1.1)**	**19.4**	**2,406**	**2,533**	**(5.0)**	**5,934**	**5,792**	**2.5**
Cost of materials	(406)	(356)	(280)	(285)	14.0	45.2	42.4	(692)	(514)	34.7	(1,709)	(1,380)	23.9
Gross profit	**903**	**1,014**	**1,044**	**811**	**(11.0)**	**(13.5)**	**11.3**	**1,714**	**2,019**	**(15.1)**	**4,225**	**4,412**	**(4.2)**
Gross margin (%)	**69.0**	**74.0**	**78.9**	**74.0**	**-504 bps**	**-989 bps**	**-501 bps**	**71.2**	**79.7**	**-848 bps**	**71.2**	**76.2**	**-499 bps**
Employee cost	(232)	(250)	(238)	(234)	(7.3)	(2.7)	(0.8)	(465)	(476)	(2.3)	(966)	(938)	3.0
Other expenditure	(417)	(485)	(470)	(395)	(14.1)	(11.3)	5.6	(811)	(868)	(6.5)	(1,894)	(1,983)	(4.5)
Total other expenditure	**(648)**	**(735)**	**(708)**	**(628)**	**(11.8)**	**(8.4)**	**3.2**	**(1,276)**	**(1,344)**	**(5.0)**	**(2,860)**	**(2,921)**	**(2.1)**
EBITDA	**255**	**279**	**336**	**183**	**(8.9)**	**(24.2)**	**39.1**	**438**	**676**	**(35.2)**	**1,365**	**1,491**	**(8.5)**
EBITDA margin (%)	**19.4**	**20.4**	**25.4**	**16.7**	**-95 bps**	**-594 bps**	**275 bps**	**18.2**	**26.7**	**-849 bps**	**23.0**	**25.7**	**-275 bps**
Depreciation	(95)	(90)	(87)	(92)	5.2	9.0	2.8	(187)	(173)	7.9	(374)	(350)	6.8
Interest	(86)	(75)	(76)	(75)	14.0	12.6	13.8	(161)	(147)	9.3	(304)	(297)	2.4
Other income	8	7	8	10	18.6	9.2	(15.3)	18	20	(10.4)	35	39	(12.1)
PBT	**83**	**121**	**181**	**26**	**(31.9)**	**(54.3)**	**223.0**	**108**	**376**	**(71.2)**	**722**	**883**	**(18.3)**
Tax expense	(23)	(32)	(36)	(6)	(28.7)	(37.5)	262.9	(29)	(85)	(66.1)	(188)	(181)	3.4
Recurring PAT	**60**	**90**	**145**	**19**	**(33.0)**	**(58.4)**	**210.3**	**80**	**291**	**(72.7)**	**534**	**702**	**(23.9)**
Exceptional items	—	—	—	—				—	—		—	—	
Reported PAT	**60**	**90**	**145**	**19**	**(33.0)**	**(58.4)**	**210.3**	**80**	**291**	**(72.7)**	**534**	**702**	**(23.9)**
Recurring EPS	**0.7**	**1.1**	**1.7**	**0.2**	**(33.0)**	**(58.4)**	**210.3**	**0.9**	**3.5**	**(72.7)**	**6.3**	**8.3**	**(23.9)**
Income tax rate (%)	**27.2**	**26.0**	**19.9**	**24.2**	**120 bps**	**729 bps**	**298 bps**	**26.5**	**22.5**	**398 bps**	**26.0**	**20.5**	**544 bps**
Costs as a % of net sales													
Cost of materials	31.0	26.0	21.1	26.0	503 bps	988 bps	500 bps	28.8	20.3	847 bps	28.8	23.8	498 bps
Employee cost	17.7	18.2	18.0	21.3	-55 bps	-29 bps	-361 bps	19.3	18.8	53 bps	16.3	16.2	8 bps
Other expenditure	31.8	35.4	35.5	36.0	-356 bps	-367 bps	-416 bps	33.7	34.3	-54 bps	31.9	34.2	-233 bps

Note: One-time WIPS unwinding benefit of Rs 100 mn is included in the other operating income of 1QFY25

Source: Company, Kotak Institutional Equities estimates

Exhibit 2: Key changes to estimates, Sula Vineyards, March fiscal year-ends, 2026-28E

	Revised			Earlier			Change (%)		
Rs mn	**2026E**	**2027E**	**2028E**	**2026E**	**2027E**	**2028E**	**2026E**	**2027E**	**2028E**
Revenue	5,934	6,549	7,163	6,106	6,733	7,357	(2.8)	(2.7)	(2.6)
EBITDA	1,364	1,532	1,738	1,433	1,628	1,845	(4.8)	(5.9)	(5.8)
EBITDA margin (%)	**23.0**	**23.4**	**24.3**	**23.5**	**24.2**	**25.1**	**-47 bps**	**-78 bps**	**-82 bps**
PAT	534	638	760	594	716	849	(10.2)	(10.9)	(10.5)
EPS (Rs/share)	**6.3**	**7.6**	**9.0**	**7.1**	**8.5**	**10.1**	**(10.2)**	**(10.9)**	**(10.5)**
Volumes (mn cases)	**1.1**	**1.2**	**1.3**	**1.1**	**1.2**	**1.3**	**(2.1)**	**(3.3)**	**(3.8)**

Source: Company, Kotak Institutional Equities estimates

Exhibit 3: Segment-wise revenue mix, March fiscal year-ends, 1QFY24-2QFY26

	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26
Revenue mix (Rs mn)										
Own brands	1,017	1,268	1,927	1,129	1,044	1,272	1,947	1,096	1,023	1,241
Hospitality	115	121	148	164	113	122	164	204	137	132
Others	34	39	100	24	127	18	55	31	23	23
Total revenue	**1,166**	**1,428**	**2,175**	**1,317**	**1,284**	**1,412**	**2,166**	**1,331**	**1,183**	**1,396**
Own brands revenue mix (Rs mn)										
Elite and premium	750	932	1,484	849	757	999	1,567	828	765	966
Economy and popular	267	336	443	280	287	273	378	268	258	275
Own brands revenue	**1,017**	**1,268**	**1,927**	**1,129**	**1,044**	**1,272**	**1,945**	**1,096**	**1,023**	**1,241**
Revenue growth (%)										
Own brands	**29.9**	**11.9**	**3.8**	**9.1**	**2.7**	**0.3**	**1.0**	**(2.9)**	**(2.0)**	**(2.4)**
Hospitality	11.7	26.0	16.5	31.2	(1.7)	0.8	10.9	24.4	21.2	8.2
Others	(56.3)	(19.1)	(7.3)	(39.9)	274.6	(53.8)	(45.1)	29.2	(81.9)	27.8
Total revenue	**21.0**	**11.8**	**4.0**	**9.8**	**10.1**	**(1.1)**	**(0.4)**	**1.1**	**(7.9)**	**(1.1)**
Own brands revenue growth (%)										
Elite and premium	**38.9**	**14.9**	**7.3**	**14.4**	**1.0**	**7.1**	**5.6**	**(2.5)**	**1.1**	**(3.3)**
Economy and popular	9.9	4.4	(6.3)	(4.4)	7.4	(18.6)	(14.6)	(4.3)	(10.1)	0.6
Own brands revenue	**29.9**	**11.9**	**3.8**	**9.1**	**2.7**	**0.3**	**1.0**	**(2.9)**	**(2.0)**	**(2.4)**

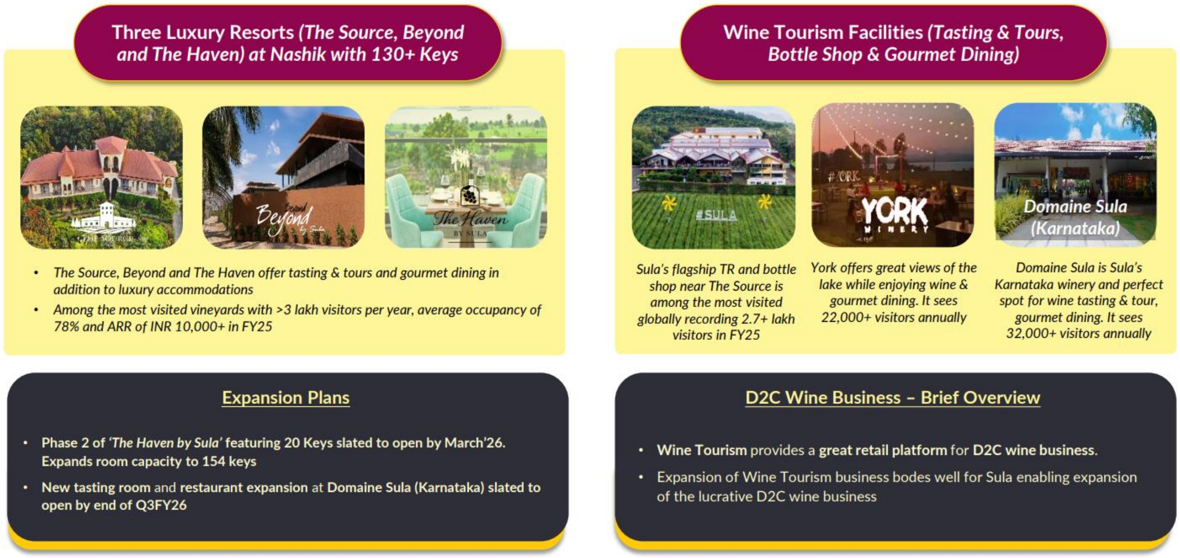
Note: One-time WIPS unwinding benefit of Rs 100 mn is included in the other operating income for 1QFY25

Source: Company, Kotak Institutional Equities

Exhibit 4: Sula brand profile as of 2QFY26

Source: Company

Exhibit 5: Sula – hospitality vertical highlights



Source: Company, Kotak Institutional Equities

Exhibit 6: Financials of Sula Vineyards, March fiscal year-ends, 2020-28E (Rs mn)

	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Profit model									
Net revenues	4,852	3,859	4,244	5,162	5,678	5,792	5,934	6,549	7,163
EBITDA	**489**	**609**	**1,133**	**1,574**	**1,759**	**1,491**	**1,364**	**1,532**	**1,738**
Depreciation	(350)	(257)	(236)	(259)	(316)	(350)	(374)	(392)	(407)
Other income	16	36	28	35	77	39	35	36	29
Interest expense	(329)	(334)	(229)	(211)	(263)	(297)	(304)	(314)	(334)
PBT	(174)	54	695	1,139	1,258	884	721	862	1,026
Tax	15	(2)	(174)	(299)	(325)	(181)	(188)	(224)	(267)
Extraordinary items	—	(22)	—	—	—	—	—	—	—
Reported PAT	(154)	30	521	840	933	702	534	638	760
Recurring PAT	**(159)**	**53**	**521**	**840**	**933**	**702**	**534**	**638**	**760**
Recurring EPS (diluted) (Rs)	**(2.1)**	**0.7**	**6.8**	**10.0**	**11.1**	**8.3**	**6.3**	**7.6**	**9.0**
Balance sheet									
Total equity	3,023	3,047	3,952	5,320	5,500	5,863	6,236	6,683	7,176
Total borrowings	3,683	3,013	2,290	1,918	2,996	2,971	2,971	2,971	2,971
Other liabilities	1,604	1,484	1,343	1,575	1,767	1,972	1,759	1,921	2,085
Total equity and liabilities	**8,311**	**7,544**	**7,586**	**8,813**	**10,264**	**10,806**	**10,966**	**11,574**	**12,233**
Cash and cash equivalents	375	408	102	164	972	72	381	167	175
Net other current assets ex-cash	4,056	3,696	3,603	4,081	4,051	5,364	4,939	5,372	5,795
Net fixed assets	3,311	3,053	3,529	4,058	4,359	4,845	5,105	5,448	5,628
Other non-current assets	568	386	351	511	882	524	542	588	635
Total assets	**8,311**	**7,544**	**7,586**	**8,813**	**10,264**	**10,806**	**10,966**	**11,574**	**12,233**
Cash flow									
Operating cash flow excl. w-cap	429	715	1,017	1,324	1,411	1,319	1,098	1,308	1,471
W-cap changes	561	1,124	1,041	1,160	1,556	787	1,646	1,222	1,441
Operating cash flow	**990**	**1,838**	**2,058**	**2,484**	**2,967**	**2,106**	**2,744**	**2,530**	**2,912**
Interest expense	(283)	(315)	(202)	(175)	(220)	(268)	(304)	(314)	(334)
Capital expenditure	(453)	(165)	(550)	(691)	(593)	(675)	(600)	(700)	(550)
Free cash flow	**8**	**1,040**	**415**	**194**	**619**	**(91)**	**780**	**298**	**624**
Key metrics and ratios									
Revenue growth (%)	**(3.0)**	**(20.5)**	**10.0**	**21.6**	**10.0**	**2.0**	**2.4**	**10.4**	**9.4**
Gross margin (%)	53.1	59.2	72.4	74.2	76.4	76.2	71.2	71.2	71.3
EBITDA margin (%)	**10.1**	**15.8**	**26.7**	**30.5**	**31.0**	**25.7**	**23.0**	**23.4**	**24.3**
PAT margin (%)	(3.3)	1.4	12.3	16.3	16.4	12.1	9.0	9.7	10.6
Net debt	**3,307**	**2,605**	**2,188**	**1,754**	**2,024**	**2,899**	**2,590**	**2,804**	**2,796**
Net debt/equity (X)	1.1	0.9	0.6	0.3	0.4	0.5	0.4	0.4	0.4
Book value (Rs/share)	40.2	40.5	51.5	63.2	65.3	69.6	74.1	79.4	85.2
RoAE (%)	(5.1)	1.7	14.9	18.1	17.2	12.4	8.8	9.9	11.0
RoAIC (%)	1.8	4.8	10.0	13.6	12.2	9.4	7.6	8.4	9.5

Source: Company, Kotak Institutional Equities estimates

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BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

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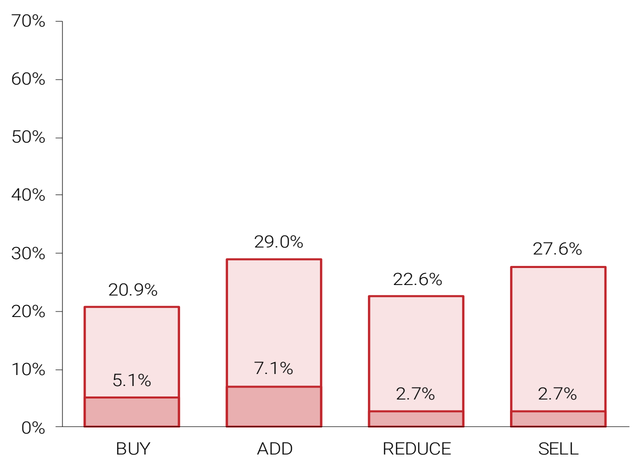

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Source: Kotak Institutional Equities

As of September 30, 2025

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