SULA
VINEYARDS

Date: 11th February 2025

To,
National Stock Exchange of India Limited ("NSE"),
The Listing Department
"Exchange Plaza", 5th Floor,
Plot No. C/1, G Block, Bandra-Kurla Complex
Bandra (East), Mumbai – 400 051.

To,
BSE Limited ("BSE"),
Corporate Relationship Department,
2nd Floor, New Trading Ring,
P.J. Towers, Dalal Street,
Mumbai – 400 001.

NSE Symbol: SULA
ISIN: INE142Q01026

BSE Scrip Code: 543711
ISIN: INE142Q01026

Sub: Transcript of Q3 FY25 Earnings Conference Call

Dear Sir/Madam,

Pursuant to Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the Analyst / Investor Conference Call held on Thursday, 6th February 2025 regarding the unaudited Standalone and Consolidated financial results for the quarter ended 31st December 2024.

The said transcript has been uploaded on the Company's website at the following link: https://sulavineyards.com/investor-relations.php.

Kindly take the above information on records

Thanking you,

For Sula Vineyards Limited

SHALAKA PRASHANT KOPARKAR
Digitally signed by SHALAKA PRASHANT KOPARKAR
Date: 2025.02.11 17:40:04 +05'30'

Shalaka Koparkar
Company Secretary and Compliance Officer
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"Sula Vineyards Limited Q3 FY-25 Earnings Conference Call"

February 06, 2025

MANAGEMENT: **MR. RAJEEV SAMANT – FOUNDER & CEO, SULA VINEYARDS LIMITED**

MR. ABHISHEK KAPOOR – CFO, SULA VINEYARDS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY25 Earnings Conference Call for Sula Vineyards Limited.

As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mandar Kapse, Head of Investor Relations. Thank you and over to you sir.

Mandar Kapse: Thank you, Rutuja. Good afternoon, everyone. On behalf of the management team at Sula, I would like to welcome you all to the Q3 FY25 Earnings Call of Sula Vineyards.

I request all of you to please refer to the Q3 Press Release and Investor Presentation available on the stock exchange and on the Company's website.

Today on the call we have with us from the Management Team Mr. Rajeev Samant – Founder and CEO, who is joined by our CFO – Mr. Abhishek Kapoor.

They will take us through the Results and answer your questions. As always, we will kick off today's call with Rajeev sharing his thoughts on the "Operating Environment" and the "Business Performance". This will be followed by Abhishek taking us through the "Financial Highlights of the quarter" post which we will open the forum for Q&A.

Lastly, before we begin, please make sure to check out the safe harbor statement about the forward-looking statement.

With that I now request Rajeev to commence today's call.

Rajeev Samant: Thank you, Mandar. Good afternoon, everyone and thank you all for joining us today for our Q3 FY25 Earnings Conference Call. I hope that you have all had a chance to review our Financial Release for Q3 which is available on our Website and the Exchanges.

Coming to our Q3 Performance:

Our own brands business recorded its 11th straight quarter of growth. However, I must admit that growth this quarter was subdued and softer than our own expectations due to a multitude of factors, including a broad-based slowdown in urban consumption; especially with the urban markets accounting for more than 90% of our business we did face a significant impact from this ongoing slowdown, especially in our two key markets of Mumbai and Pune. Additionally state elections in our most important state market, Maharashtra, with a number of dry days and very strict code of conduct restrictions also had an impact on sales in our largest state. And in Telangana too, which is now our third largest state and in fact challenging Karnataka for second largest status and which has been growing really well, we consciously slowed down our placement there in Q3 due to a delay in receivables from state authorities. However, on this front, I am pleased to say things are getting better and we are beginning to see more timely payments. So, going forward, we expect to normalize our shipments to Telangana.

Apart from these macro challenges, in our case, our Maharashtra WIPS credit in Q3 this year was capped. Hence it was lower by INR 4.7 crores compared to Q3 last year given the capping of WIPS at by INR 20 crores annually at our largest unit Domain Dindori. In fact, the lower WIPS credit by INR 4.7 crores also flow directly to the EBITDA. So, this has impacted our EBITDA margin by around 200 basis points.

Having said that, again on this front we have some good news. We have now kicked off production at our Nashik unit and we have received a positive clarification on unit definitions. This is our fourth bottling unit in Maharashtra which will ensure that from FY26 onwards we can garner 100% of the maximum potential WIPS in our case compared to only 80% this year. Though I should note that we will face a small hit on this aspect in Q4 as well.

Moving on, we are witnessing a couple of really positive longer-term trends playing out. First, our elite and premium portfolio continued to do well even in the current subdued environment, growing by 6% versus last year and especially with our iconic elite brands The Source and RASA, recording double digit growth this quarter, building on top of a solid H1 performance. So that is definitely, it bodes very well and it continues to be our strongest point in our portfolio. Secondly, an even more exciting trend is the growing pan India appeal of wine in Tier I and Tier II cities outside of our top two states. So, our revenue outside Maharashtra and Karnataka continued to see healthy traction in Q3 as well, growing by 8% after recording a high single digit growth also in H1. This is very encouraging and reinforces the confidence that we are taking strides towards our goal of building a truly pan India brand for our wines. We expect both these drivers to continue to power our growth journey even more meaningfully as we move forward.

Coming now to our Wine Tourism business:

I am very pleased to say that this segment performed strongly in this all-important festive season, and we have ended up with our highest ever quarterly revenue. In fact, I should note in this that the month of December was our highest ever monthly revenue. Wine Tourism revenues grew by 12% over last year, led by improved occupancy rates which stood at 81% in the quarter versus 76% last year and higher ARRs driven also by a record number of wedding bookings where the entire resort was taken over. I should note here that in these weddings we make it a non-negotiable point that the wedding organizers have to buy a certain amount of wine, quite a bit of wine. And a few years ago, we used to face fair amount of resistance here, but recently we have noted a boom in wedding bookings at our vineyard resorts with all the guests perfectly happy to meet our condition in this regard, which bodes very well. Though overall visitor numbers were slightly down, we should remember that we have set records in the past as the most visited vineyard in the world and that was perhaps a slightly unsustainable number coming out of COVID with revenge tourism. So, numbers are slightly down, but the spend per visitor which is a very key focus area for us has grown by double digits over last year. So that's an excellent trend. And this is a testament to the hard work we are doing to provide more excitement on our campuses and more avenues to taste and buy our most expensive and luxurious wines which more and more people are reaching out for. So, this highlights the way forward for us as we focus on constantly elevating our guest experience.

We also have some exciting new openings coming up on the Wine Tourism front in Q4 and FY26 which I had alluded to in earlier calls, and I would like to provide an update on:

1. Within Q4 itself, we have the Dindori tasting room and bottle shop opening up at the erstwhile N D Wines. We are building up something really nice there and this facility is located close to Gujarat border so we do see a strong potential for footfalls here. We do get a lot of visitors from Gujarat coming to our main campus which is quite a bit of a drive further from the border and this will give a lot of people a further opportunity to taste and buy India's finest wines.
2. The expansion of our Wine Tourism facilities at Domain Sula outside Bangalore. Here we are opening a new tasting room and expanding our existing bottle shop and restaurant. The expansion of the bottle shop was completed in Q3, and we expect to complete a really beautiful tasting room with a spectacular view and the restaurant expansion in H1 of FY26.
3. Probably the most significant out of our expansion plans is the 30 key resort coming up near our York Winery in Nashik. This will expand our total room capacity in Nashik by 30% from 104 keys to 134 keys. So quite significant and it will also be our first resort to have dedicated convention facilities which will have a boon for all our resorts in the area. So, we do expect a big pickup in corporate off-site business once this is completed and we expect to launch this resort in H2 of FY26. Work is in full

swing and is well on schedule. So, these expansions and especially the new resort will give a significant boost to our Wine Tourism business in FY26.

Moving on, as most of you are aware, we recently promoted Gorakh Gaikwad to the position of Chief Operating Officer at Sula. Gorakh has been with us for the last 16 years and has worked in various operational capacities, including most recently as Chief Winemaker. He has already very firmly taken over the reins from Karan Vasani and the transition, I am happy to say, has been super smooth. Key functions including winemaking, viticulture, winery operations, projects and procurement are now all reporting to Gorakh. So, he is a COO in the truest sense of the word and we wish him all the best. I have an update from Gorakh on the current harvest which we are right in the middle of, harvest 2025. The harvest is looking excellent in terms of quantity and quality, so I am very pleased to say that it is our fifth excellent harvest in a row and as we have really proven in the last 5+ years, for us, the supply side has been largely seamless. This is a tribute and testament to the hard work that our teams have been putting in. We have been working extremely hard over the last decade to mitigate the impact of climate change and global warming. And I must say today we have a very robust and resilient system in place for our vineyards and grape procurement that to a large extent insulates Sula from the worst impacts of climate change. It is no coincidence that this is our fifth good harvest in a row when across the rest of the wine world there have been significant impacts on at least one harvest in the last 3-4 years, and I would say in sort of every 3 years or so, these days.

Talking about another very positive development and something that is hot off the press, you can say, I am delighted to say that we held the 2025 Edition of Sula Fest this past weekend after a long wait of 5 years. Well, I would say that it was well worth the wait. The much-anticipated event set new benchmarks for us as we witnessed an incredible turnout of around 12,000 people who thronged the festival across two days at our Nashik vineyard. As per our ticketing partners, Book My Show, this was possibly the only sold-out music festival in India of this size over the past year. So that's really a tribute to the hard work put in by the team and the curation of the acts and the musical talent on display. The attendees had a great time enjoying the live performances, our award-winning wines, gourmet food and other unique experiences. This was also very notably the first Sula Fest where we did not have spirits available. Some of you may recall that in the past we were also an importer of some prestigious spirits from across the globe which also used to be available at Sula Fest. We have walked away from that business in recent years and hence we took a decision that for this Sula Fest and going forward, there will be no spirits. We had only wine and beer. Not a single attendee as far as we could tell, missed the lack of spirits. We also had only Indian artists this time. I would say the best of indie Indian music and the crowd loved it. No one missed the absence of expensive international acts. Our recently launched Sula Cans, our Chenin Blanc in a can, the Zinfandel Rose, the Red Zin were a huge hit with the crowd, and I would say that those were our highest selling wine, were the wines in a can. So that was some tremendous exposure for this format which we see as so exciting in the future. The Fest also garnered fantastic media coverage. We are still measuring it at this point, but it's hit out of the stadium across platforms and formats including well known national media houses and all-over digital media. So, it's been a great event for brand Sula. Overall, Sula Fun Fest was a grand success and we believe it offers us a great platform to attract more wine enthusiasts as well as first time consumers alike and thus foster both category development and branding in the future. Going forward, we plan to host Sula Fest biennially instead of annually. So once every 2 years, not every year and not every 5 years.

Finally, to Conclude:

Yes, it has been a challenging year, but I do believe that in many ways we have hit a trough now and we should start seeing a revival from here on. Moving ahead, our focus over the next 18 months is to target quality growth with greater emphasis on improving our profitability and margins. While softness in urban consumption might last a bit longer, we expect Q4 to be largely in line with Q4 of last year and for next year, FY26, we are targeting a significant expansion in earnings. With that, I would like to call on our CFO; Abhishek Kapoor to take you through our financial performance and metrics in greater detail. Over to you Abhishek.

Abhishek Kapoor: Thank you, Rajeev. Good evening, everyone.

Following Rajeev's "Overview of our Business Performance and Key Initiatives", I will now take you through the "Financial Highlights" for Quarter 3 and first Nine Months of Fiscal '25.

First, talking on the "Revenue Performance":

As Rajeev already mentioned, this quarter marked the 11th straight quarter of growth in our own brands segment. Revenue from our own brands increased 1% over previous year with our Elite and Premium segment posting volume growth of 3% and a value growth of 5.5%. The contribution of Elite and Premium to our own brand's portfolio expanded by 300 basis points reaching an all-time high of 80% in Quarter 3. However, overall revenue growth was impacted by subdued consumer spending in urban India and election related disruptions in Maharashtra which happens to be our largest market. Additionally, a significant factor as Rajeev mentioned earlier was the reduced WIPS credit of around 5 crores as our Domain Dindori unit hit the 20 crores cap in Quarter 3. This contributed to a 250 basis points decline in our own brand's revenue growth with the impact primarily seen in our economy and popular wines which were largely serviced through the Dindori unit. As a result, our economy and popular Portfolio recorded a 15% decline in revenue for Quarter 3 against a 5.5% volume decline.

On a positive note, we commenced the bottling unit at our Nashik unit which is defined as our Unit 1 which has now been certified as a separate entity eligible for this credit. Moving forward, this will enable us to capture 100% of potential WIPS benefit compared to expected 80% in Fiscal '25. Geographic diversification played a key role in mitigating the impact of challenges in Maharashtra and Karnataka in Q3. Excluding these two states, our other markets collectively grew 8% in Quarter 3 with over 10 states recording double digit growth. Consequently, the share of non-core markets in our own brand's portfolio increased by 300 basis points to 50%.

On Wine Tourism, as Rajeev mentioned earlier, in Quarter 3 our revenues grew 12% over previous year. This growth was driven by improved occupancy rates which were clocked at 81% versus 76% last year, a higher average room rates which increased by 34% and increased guest spending during a robust wedding season. Encouragingly, wedding demand remains strong in Quarter 4 as well.

Our gross margin for Quarter 3 stood at 62.5% which was down around 450 basis points over last year, primarily driven by the lower WIPS credit which I mentioned earlier that led to 100 basis points decline in the gross margin. Also, we had a change in our route to market for our direct-to-consumer wines which we sell from our own retail shops to streamline the supply for Wine Tourism, we now source these wines through a distributor with a nominal handling fee for stock management. While this adjustment impacted the gross profit by around INR 5 crores, the corresponding increase in sales meant no absolute impact on our EBITDA. However, this change resulted in a 200 basis points reduction in gross margin. Employee costs increased by 11.5% with 300 basis points attributable to the ESOP cost under the 2023 ESOP scheme which had no comparable cost last year. Excluding the ESOP cost, the employee cost grew 8.5%.

During the festive season, we invested in consumer engagement through tastings, gift packs and point of sale material. Additionally, our expanding presence in non-core markets outside of Maharashtra and Karnataka led to a 16% increase in selling, distribution and marketing expenses in Quarter 3. EBITDA for Quarter 3 declined by 26% to INR 54 crores as lower gross profit and higher market spends weighed on the operating profitability. The EBITDA margin for the quarter stood at 25% with a 200-basis points impact from lower WIPS credit. EBITDA margin also had an adverse impact from geographic diversification with higher revenue contribution from non-core markets having lower margins versus Maharashtra and Karnataka due to the higher instance of duties and taxes. As of April 1st 2024, our outstanding WIPS balance was INR 73 crores. We accrued INR 44 crores during the first nine months of Fiscal '25 and we also received INR 32 crores from the government of Maharashtra towards the earlier outstanding. In January 2025 we secured an additional INR 24 crores reducing the outstanding WIPS balance to INR 63 crores. While the interest cost for Quarter 3 shows a decline of 3% which is mainly on account of a one off in last year cost on account of interest on custom duty. The underlying interest cost has seen a 9% growth as the gross borrowing has increased by around INR 75 crores versus last year. The increase in borrowing is due to higher working capital due to expansion in DSOs by 30 days as the revenue contribution from corporation markets have expanded by 110 basis points. While we are receiving pending payments from the Telangana corporations at regular intervals, the relative DSO is still significantly higher versus other markets. We expect DSOs to moderate downward by the end of this fiscal.

On CAPEX front, we are likely to end this fiscal with INR 55 crores investment majorly composed of our low-cost cellar which expands our capacity by 2.5-million liters and a renewables infrastructure expansion to increase our solar energy contribution from 60% in FY24 to 70% by end of FY25. We shall be utilizing 1.5 million liters capacity of low-cost cellars for the current harvest which is underway for storing our economy and popular wines. Looking ahead, as Rajeev emphasized, our focus remains on quality of growth. To improve margins, we have started pulling back selling and distribution expenses while continuing to strengthen geographic diversification. We shall be completing implementation of our second force strategy in Quarter 4 '25, helping to reduce the cost to sell for our economy and popular brands. Also, as shared by Rajeev earlier, our 14th edition of Sula Fest which was held earlier this month saw a huge success, scoring beyond all the KPIs which we set internally and also adding huge branding mileage. We believe that the fest shall contribute meaningfully to the Wine Tourism revenue in Quarter 4 and shall also be EBITDA accretive. It's a great platform for the brand and we shall also be exploring more potential for the expansion of Wine Music Fest going forward. Overall, we expect strong earnings growth from the next fiscal.

With that, I would like to now ask the moderator to open the floor for Q&A. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on the touchtone telephone. If you wish to withdraw yourself from the question queue you may press '*' and '2'. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Viresh Sangwan, an individual investor. Please go ahead.

Viresh Sangwan: Hey everyone. So, I just had two questions actually. One was related to the recent tasting room that we opened outside our winery. I think it's called Milestone Cellar or something. So, how's that performing if I just want to know?

Rajeev Samant: That is doing okay I would put it like that. A little bit below our expectations and we are figuring out how to boost the sales there. We have much better hopes for our ND Winery which is on our campus and where we will be able to do a much better job with a bottle shop etc. But I must confess that sales at Milestone Cellars have not been up to the mark.

Viresh Sangwan: Okay. And any improvements or any learnings that we are taking out of it or any….?

Rajeev Samant: Yes, absolutely. We took a risk here; we took a chance. It's in the middle of a purely rural area. You can say rural heartland Maharashtra, near the town of Pimpalgaon. And we wanted to take a chance to see how it can work in an area, not close to the city. I think we are taking some learnings from it that probably the next one we put up, apart from at our own campus, which of course has its own benefits in terms of tours and tastings and all that we can't really do on a standalone, should be closer to an urban area. I think that's one of the chief learnings that we have here.

Viresh Sangwan: Okay, best of luck on that. And my last question is related to, I happen to hear the conference, the earnings call of our competitor. And what I learned is that they are very much, they have a very big market share in HORECA. Just wanted to know like our approach on that and why because I certainly know that Sula is very well known and very high in recognition amongst the people. But why we are not into HORECA. Is there anything stopping us or we don't want to be in HORECA?

Rajeev Samant: I can answer that. So, Sula is by far and away the number one consumer choice in wine brands. Now there's a very big difference between retail and HORECA. We are by far dominant in retail. That is because no retailer can afford not to stock the consumer's number one choice. And at a retailer the consumer gets to choose exactly what they want. And hence you can say the best brands and the leading brands will always win. In HORECA, it's very different. The buyer at the HORECA gets to HORECA for everyone's reference of course we are talking about hotels, restaurants, cafes, bars. The buyer gets to decide what the wine list is. And there are many factors that come into play and the factor of it being the number one consumer choice gets pushed down. The main factor, for better or worse in India is how much discount are you giving me? And Sula does not play that game in the way that our competitors do. I will state explicitly that we are willing to give lesser discounts. And hence you will always find that in HORECA the brands that are not necessarily the consumers number one choice, they will have a good market share.

Having said that, there is no way that any of our competitors has a higher market share even in HORECA than Sula. We continue to have a higher market share even in HORECA. However, our market share in retail is far higher. I hope that answers your question.

Moderator: Mr. Viresh, may we request you to please rejoin the queue. We have participants waiting for their turn. Thank you. The next question is from the line of Vinamra Hirawat from JM Financial. Please go ahead.

Vinamra Hirawat: So, if I look at the distance between the three resorts, the two that we have and the one that's coming up, they are maybe 10 to 15 minutes away from each other. Because of this, do we see the 75%-80% occupancy that we have coming down? Because now there are 30 more rooms coming in the same greater Nashik region.

Rajeev Samant: It's a good question; the same question was there when we built the new Beyond that will it impact and it has not impacted at all. If you see the occupancy this quarter versus one year ago, in fact, occupancy has jumped. We don't believe that 130 rooms is enough to sort of cannibalize our own. Each one of our resorts has a sort of a distinct proposition and they work, they function really well together as a unit. I would like to point out that on weekends typically we are 100% occupied. So, when you are at 100% that means that on most of those weekends you actually have demand that you are not able to meet. So that's where the benefit really comes. And of course, our weekend rates are much higher than our weekday rates. During weekdays there is some possibility that to some extent in the beginning you might have a small hit on occupancy. But overall, definitely this is going to contribute. Plus, the conference facilities, which is unique in our new property that we don't have in the other two and that is only going to be an accretive. I hope that answers your question.

Vinamra Hirawat: Yes, we spoke about each resort being a little bit unique. So, the new York has already more targeted towards corporates than individuals, is that fair?

Rajeev Samant: That's fair to say. But corporates also you have different sizes of corporates and of requirements. So, if you have a corporate that only needs 30 rooms, then they will only occupy York. However, if you have a corporate that needs 100 or 200 rooms, but they absolutely need conference facilities, then the fact that these resorts are only 10 minutes from each other becomes a big advantage there. So, they can be a little distributed. Some at this resort, some at that resort. We have done that in the past for bigger corporates and so that works very well. So, the main conference can happen here, but people are spread out over the three resorts.

Vinamra Hirawat: Okay, okay, got it. Sir we've also mentioned multiple times in the past that road infrastructure to Nashik is causing issues for us. I was looking at the Q4 call. You had stated that there would be plans for a resort in Domain Sula in Karnataka. Is there any update on this? Because it would go a long way in reducing our dependence in one area.

Rajeev Samant: We have faced certain issues, I must confess, with permissions for building out our resort, we are in touch with the authorities. We come under the Bangalore-Mysore industrial corridor and we are facing certain issues there. Hence, we took a call to build a big beautiful tasting room for the time being. And that's what I mentioned earlier and that's really stunning, the architecture there and it overlooks a vineyard a little bit like Nashik. It's a little smaller in that way, the vineyard in front. But I do believe that is going to give us a nice boost there. Plus, we are going to have a roster of events, especially musical events a la Mini Sula Fest that we plan to roll out there. Unfortunately, no good news yet on a resort at our Bangalore property.

Vinamra Hirawat: If I could just fit in one more question, sir. We said other states have lower margins than Maharashtra and Karnataka, if you could just break down Maharashtra and Karnataka margins versus other states for both Elite and Economy separately, that would go a long way in helping analysis.

Abhishek Kapoor: I will take this question. This is Abhishek here. So, in fact this question we have answered in the past as well, that due to the duties benefit, the lower duties in these two states we get a benefit in terms of the operating margins in these two states. In terms of the variation between the margins, it ranges between 500 to 700 basis points between these two markets versus others. I must also mention that some of the newer markets outside of even Telangana, Rajasthan and West Bengal, which have been well penetrated by us, the others continue to be sort of a focus wherein our spends with respect to building the market, they continue to be high but which tend to once we penetrate these markets further, the spends will get restricted and the margins will improve over there. Hope this answers your question.

Vinamra Hirawat: Yes, so this 500-700 bps difference in EBITDA margin, is the same for Elite and Premium and Economy as well or is it higher difference for Elite? Any word on that?

Abhishek Kapoor: So just to answer this, in fact outside of Maharashtra and Karnataka, the percentage of Eco- pop, the Economy and the popular brands is much lower versus what we have in Maharashtra and Karnataka. This is because of the economics as the duties are higher. So, we have larger contribution of revenue coming in from Elite and Premium in the markets outside of these two core markets for us.

Vinamra Hirawat: Okay, sir, thank you.

Moderator: Thank you. The next question is from the line of Naman Shah from Monarch Networth Capital. Please go ahead.

Naman Shah: Hi sir, I just have two questions. First of all, I wanted to ask about the selling and distribution cost. We have repeatedly mentioned in the presentation that we had high S&D spend. So, what will that amount be?

Abhishek Kapoor: So Naman, the S&D costs which has been mentioned in our presentation that pertains to our distribution market, the direct distribution markets where this cost typically ranges between 16% to 18% of gross sales. There has been a bit of an elevation in these costs by approx. 200 basis points. But as Rajeev alluded to earlier and I also mentioned in my piece as well that now we are pulling back these costs as we want to focus a lot more on the quality of growth vis-à-vis more sort of presence and penetration in the markets where we already have a good depth in terms of our business.

Naman Shah: Right. And one more question, sir. So, you talked about discounting. You talked about offering discount. So, since competitors are also offering discount, how much discounts are we offering to the retailers in that sense?

Rajeev Samant: I will answer this. Generally, we offer less discount than our competition. So, we've been holding this line, and we do believe that this is the right way. We are already offering adequate; I would say more than adequate discount to the retailers. But some of our competitors offer even more, I would say to really an unnecessary and unsustainable extent. But we are fairly significantly lower in most markets. And still, I am happy to note that in most markets we continue to gain market share, albeit in a small way. But we are still gaining market share in India.

Naman Shah: Right, sir, but could you kind of quantify this discount that we offer?

Abhishek Kapoor: So, as I mentioned Naman earlier, I was alluding earlier to our distribution markets. If you talk about our other markets where this is appearing in our selling, distribution and marketing line, this is typically around 14% to 15% of our revenue, the net revenue. As Rajeev was just mentioning that we prefer to offer less discounts to the retailer. Instead, we prefer more in terms of our reach to the consumer by means of holding more tasting sessions and offering consumer offers, which helps in terms of building the pull effect as against just a push to the trade.

Naman Shah: Right. Thank you, sir. That's all from my side.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Hi sir, good evening. Some questions on your margins, in this quarter we said that our gross margin was impacted because of the gap and the WIP subsidy, which means that we'll probably have a similar kind of gross margin for the next quarter also before we turn to FY26 when we'll get the benefit of the new plan that we have. In light of this, how can one work with margins for Q4 because it's a smaller quarter versus Q3?

Abhishek Kapoor: So good question Alisha, I may inform you that as part of our transitioning of our bottling arrangements, which was largely concentrated in our Dindori facility, at the beginning of this year itself, we started setting up the bottling infrastructure at other three units of ours as well, which are in Nashik and Dindori, which also get the similar benefits of WIP as the Dindori unit. Now, as the Dindori unit has been capped in Quarter 3, and I mentioned earlier that it was only the economy and popular brands which sort of got deprived of this benefit because of this INR 5 crores restriction which this unit faced. The economy brands have also now been moved out of Dindori for Quarter 4 because of beefing up of our bottling arrangements in the Nashik Unit 1. And hence we do not see the kind of impact what we saw in Quarter 3. Having said that, as far as Q4 is concerned, with our improved focus on the margins, we don't see much decline in terms of the operating margins versus what we clocked in Q4 last year.

Alisha Mahawla: What I am understanding is that both in terms of top line and margins, we should mirror what we did in Q4 of last year.

Abhishek Kapoor: Since you asked about the operating margins, so my answer was more oriented towards that.

Alisha Mahawla: Sure. And going forward, last 2 years, ‘23-24 we were circling at the 30% margins which have slid this year for multiple reasons that you have highlighted and this is despite the fact that Elite and Premium, the share of that has gone up and the premiumization margin should also improve that's our understanding. But now we'll have incremental costs for all the bottling plants and the tasting rooms that we are setting up. There is the incremental spend that we are doing on S&D. There is also third-party distribution for popular and economy etc. How do we explain long term these margins to now start moving?

Abhishek Kapoor: Yes, Alisha see we have been mentioning that the margins what we saw in FY24, we also didn't expect them to be sustainable which was upwards of 30% odd. The reason was very clear that geographic diversification was very much on our radar. We wanted to drive that and that is the right thing to do. With that there was an expectation of slight moderation in the margins. Now key factors which kind of impacted this in the current year. One is largely the muted revenue growth which once it's clawed back is going to add impetus to the margins. Apart from that, with various initiatives which are being taken mainly in terms of reducing the S&D spend, we expect the margins should claw back a 200 to 300 basis points from where we sort of ended our YTD nine months period.

Alisha Mahawla: Understood. And just one last question again with respect to margins, if I may. You mentioned in your opening commentary that demand is weak, especially urban consumption seems to be this quarter, last quarter. And while you're the best judge of it. Would this be the most appropriate time to pull back on S&D spend when demand itself is weak and we may need to incentivize the channel a little bit more for its placement to sales of any kind of format?

Abhishek Kapoor: Alisha, we have witnessed very clearly that offering more channel margins or discounts actually doesn't help in terms of the consumer offtake. So, I was answering that with this moderation in the discounts, we see that the margins to improve. And to your question in terms of whether there would be any kind of a downside impact, the answer is no. Because in terms of building the connect with the consumer through various offerings, holding more number of tasting sessions and also this Sula Fest is also going to come to the benefit in terms of getting some of this demand back. So, the right measures are being put in place as against relying on more discounts being offered to the trade.

Alisha Mahawla: Understood, sir. Thank you.

Moderator: Thank you. The next question is from the line of Siddhant Dand from Goodwill. Please go ahead.

Siddhant Dand: So, my first question was regarding our working capital. Now working capital seems a little tight and we've aspirational growth plans, setting up new facilities, growing sales and aging requirements of wine. So, what kind of dividend payout do you expect to give in the future? Because it felt like you were funding dividends from working capital in the past couple of years.

Abhishek Kapoor: So. Fair question. I mean in terms of the past, if I were to talk about till FY24 till the time the WIPS policy was awaited and there was a huge accumulation of the past WIPS balances, there was a situation which was more tight on account of the monies being expected from the government. However, having said that with the regular inflow of funds if I were to tell you in terms of our YTD WIPS that we have received is close to around INR 57 crores this year thus far. Last year we received around INR 100 crores. And you assume that why is it that the working capital scenario continues to be a little bit on a tighter side? That's mainly because our revenue contribution coming in from the corporation market that has been inching up. As I mentioned earlier, it has increased this quarter as well by 110 basis points. Now, the relative DSOs which we have from the corporation markets versus the distributor market, they are higher and hence there is a more requirement of working capital. But that is not a scenario what we see, I mean in terms of the period ahead. There is a moderation which is happening as the past outstanding from the Telangana corporation state, they are coming down and it will help in terms of reducing this gap of working capital funding. And to answer your question on the dividends, I mean it's clearly related to the strong reserve that we have. So, we don't see any challenge with respect to the kind of trends we have been maintaining on dividend.

Siddhant Dand: Okay, perfect. My next question was regarding the correlation of wine shop quality and the sale of wine. Could you just comment something on that and what is any policy in our key market? I read about some wine top license in Karnataka, they are going to open that again. So, the quality of wine shops and the sale of wine within these cities.

Abhishek Kapoor: If understand your question correctly, you are talking about the demand and the quality relation the quality of wine and then you are talking about the return. Sorry, I didn't get your second part of the question.

Siddhant Dand: What is the correlation between the sale of wine with the percentage of wine stored in a shop to a better-quality store compared to one of the older stores where you have to queue up in a line?

Abhishek Kapoor: A discerning consumer who is a wine enthusiast will always appreciate a quality wine versus going in for the cheaper wines which are available dime in dozens. Now one thing which we have been consistently maintaining is in terms of offering the quality wines at the appropriate price so that the discerning consumer is not left wanting.

Siddhant Dand: Quality of the retail store because we are seeing 7/11 and others starting to keep Sula Wine. So, is that improving our sales, wine as a percentage of liquor consumption?

Abhishek Kapoor: So, I would say its early to say that. I mean in terms of further penetration into the retail shops and particularly in the organized trade which are basically full format stores, it's not so prevalent still. And that too from state to state, it actually differs a lot. But yes, I mean in terms of its presence we clearly see that there is a positive impact on the offtake of the wine.

Moderator: Sorry to interrupt, may we request you to please rejoin the queue sir, we have participants waiting for their turn. Thank you. The next question is from the line of Priyanka from Value Prolific. Please go ahead.

Priyanka: Thanks for the opportunity. I just want to understand the wine landscape in India because it's still at a very nascent stage. And what is the percentage of domestic wine consumption versus the international wine and what percentage of that is captured by Sula and its immediate competitor which is Fratelli Wines? Thank you.

Abhishek Kapoor: In terms of the landscape, the overall wine market is expected to be closer to INR 1,500 crores of which around INR 1,000 crores is captured by the domestic wine and INR 500 crores by the imported wine. Within that, if you see in the Elite and Premium category, Sula enjoys around 50% plus market share. This is basis our own assessment and the data which we get from various cooperation markets. Now in terms of the overall AlcoBev space, if you were to see wine continues to be contributing lesser than 1% to the overall AlcoBev market in India. However, with this the growth potential definitely is wide. The right measures of expanding in terms of the reach to the consumer and my making more people to taste wine, which is driven by Sula through holding various tasting sessions across the length and depth of the country. So that's the right way we believe instead of following the trade route and sort of filling the retail shelf with just bottles of wines.

Priyanka: So, what percentage are we expecting in the coming like 4-5 years that what percentage of wine will be in the overall alcohol space?

Abhishek Kapoor: Priyanka even if this 1% gets converted to 2%, I think it's going to be a big boom given we are the market leader with 50% share, is going to be a significant jump in our revenue.

Priyanka: Okay, my next question is like over the past 1 year the Sula's share price has fallen down by 50%. What are the like main key reasons behind it? I can understand like probably because of this Maharashtra elections, the dry day, the investors must have anticipated the bad financials. But what are the other reasons do you think.

Abhishek Kapoor: So, Priyanka, as relating to your previous question. While the penetration is a journey and that's where Sula is taking the lead rightly so being the market leader. But it's going to take a bit of a time and particularly in a challenging environment where wine being more of an urban phenomena and urban demand continuing to be tepid. That has basically given a temporary sort of a pause if I can say so. But that doesn't stop us from holding back our initiative in terms of new launches, in terms of innovating further. And one of the testaments to that was the response to our recently conducted Sula Fest where we saw tens of thousands of people thronging over this two-day fest. It clearly showcases that there is a demand but probably they are holding, the consumer is holding back given the tight scenario which is there on the liquidity in terms of their consumer spending potential. Once this is back and government is also taking all the right measures to give more money in consumers' pockets, we are very-very confident that this is going to help in terms of pushing the wine growth back on track.

Moderator: Sorry to interrupt. May we request you Priyanka to please rejoin the queue. We have participants waiting for the turn. Thank you. The next question is from the line of Yashodhan Nerurkar from Iconic Wealth. Please go ahead.

Yashodhan Nerurkar: Thanks for the opportunity. So basically, I will just continue, the question from previous participants. So, I just wanted to understand, I mean we are significantly lower than the per capita consumption of wine across India versus the western peers. And obviously there are reasons for the same. But I just want to understand what sort of drivers do you think would that per capita consumption to nearly double in the next 5-10 years possibly or do you think that's really possible? And what is Sula's current capacity? And like put in another way, what is the current capacity and how much are you targeting it to be say over the next 5 or 7 odd years?

Abhishek Kapoor: So first in terms of the demand, let me give you a comparative. I mean we are where probably China was 20-30 years back. Why the right comparative in China market because again is a non-native wine consuming market. Per capita wine consumption for us is slightly over 40 ml person per year. And China currently is close to a liter person per year. And 20-30 years back this is where they were running 30-40 ml person per annum. So, we are on the right track. I would say that because more and more consumers today are demanding as people are traveling to far east, traveling to Europe, they come back with the experiences and they want those same experiences over here back in India, which is where we come in with the right set offerings, the quality wines for them to taste and get sort of habituated to versus their preference over spirits and other AlcoBev. On your other question, in terms of capacity, we are close to around 17 million liters, 16.6-million-liter annual capacity. We are also adding the low-cost cellar this year which is going to be commencing the commercial production very soon in Feb itself. This is going to add another 2.5 million liters capacity. This new capacity is dedicated to our lower cost wine. We wanted to bring down the CAPEX cost for our Economy and Popular wines. And hence we segregated the back-end infrastructure for producing and storing these wines.

Yashodhan Nerurkar: Okay, that's helpful. So, I mean the question was about your capacity. What would your target be in the next 5 years? So that was the other part of the question. And the second question is about your current ASP taken as a portfolio together and I mean you have introduced wine in a can as well. So how has that taken off and are you seeing incremental demand for that particular product as well?

Abhishek Kapoor: Sure Yashodhan. The first and foremost, in terms of the capacity, we are having the infrastructure good enough to meet the future demand, our cellars, as far as the civil infrastructure is concerned, we have built that keeping the future demand in consideration. What we need to do is just put up more tanks so that our installed capacity gets expanded, and which is a big enabler in case on our demand side we are able to drive it more aggressively and get the results of that as well.

Aditya Soman: Hi, good evening. Rajeev and Abhishek. So, two questions. So firstly, on the WIPS subsidy which you said there was a shortfall of INR 4.7 crores in this quarter. Did you give a number on what a shortfall you expect for the next quarter would be? And, and then you said that for 26 there should be no shortfall, right?

Abhishek Kapoor: Yes, Aditya. So, we mentioned earlier that this year we are likely to capture around 80% of eligible WIPS. We had informed this earlier as well that this is a year where we are going to expand our bottling infrastructure across our four units. Good news which we got in Q3 through our constant working with the authorities and officials was we got the certificate for our Nashik unit as well. And Q4 particularly will be closer to 100%. But yes, in next financial we will be able to capture definitely 100% of the eligible dates.

Aditya Soman: Understand. So, in 4Q basically it will be a lot lower than INR 4.7 crores. That's understanding would be fair.

Abhishek Kapoor: That’s right.

Aditya Soman: Okay, understand. And then the second question on Wine Tourism. So again, in 4Q we should see a big bump because of Sula Fest, would that be the right assumption? Because that wasn't there in the base quarter last year, right?

Abhishek Kapoor: Yes, definitely. This will give us a boost in terms of the revenue. And we are also expecting this event will be EBITDA accretive for us while the numbers are yet to be aggregated. But it has really scored on all the KPIs that we set for this event. So, it augurs really well for our Quarter 4 as far as the Wine Tourism revenues is concerned.

Aditya Soman: Okay, understand. Very clear. Thank you.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to the management for closing comments.

Abhishek Kapoor: Thank you. Thank you all for joining us on this call. As Rajeev mentioned earlier, definitely this has been a tough year for us. But we really expect a rebound from here as various measures by the government are being rolled out to get more money into the consumer's pocket. And that definitely is going to augur well for our growth onwards. Thank you once again.

Moderator: Thank you. On behalf of Sula Vineyards Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.