SULA
VINEYARDS

Date: 20th November 2024

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.

NSE Symbol: SULA
ISIN: INE142Q01026

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

BSE Scrip Code: 543711
ISIN: INE142Q01026

Sub: Transcript of Q2 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 Wednesday, 13th November 2024 regarding the unaudited Standalone and Consolidated financial results for the quarter ended 30th September 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: 2024.11.20 10:00:17 +05'30'

Shalaka Koparkar
Company Secretary and Compliance Officer
Membership No. A25314

"Sula Vineyards Limited Q2 & H1 FY '25 Earnings Conference Call"

November 13, 2024

MANAGEMENT: **MR. RAJEEV SAMANT – CHIEF EXECUTIVE OFFICER - SULA VINEYARDS LIMITED**

MR. ABHISHEK KAPOOR – CHIEF FINANCIAL OFFICER - SULA VINEYARDS LIMITED

MR. MANDAR KAPSE – INVESTOR RELATIONS HEAD - SULA VINEYARDS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY '25 Earnings Conference Call of Sula Vineyards Limited.

As a reminder, all participant 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 this conference, please signal an operator by pressing "*" and then "0" on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mandar Kapse, IR Head of Sula Vineyards. Thank you and over to you, Mr. Kapse.

Mandar Kapse: Thank you, Michelle. So, we welcome all of you to the Q2 and H1 FY25 conference call of Sula Vineyards. To take us through this quarter's performance and to answer your questions, we have with us Mr. Rajeev Samant, the CEO of the company, and Mr. Abhishek Kapoor, the CFO. So, we will start with a brief overview from the management and then open the floor for Q&A.

But before we begin, please note that there are numerous factors which could cause actual results to differ from those in the forward-looking statements. New factors emerge from time to time and it's not possible for the management to predict all of them, including the extent to which any combination of these factors may impact the business or cause results to materially differ from those contained in any statements.

With that, I would like to hand over the call to Mr. Rajeev Samant.

Rajeev Samant: Thank you, Mandar. Good afternoon, everyone. Thanks for joining us today for our Q2 FY '25 earnings conference call. I hope you have had the chance to review our Q2 press release and presentation which is available on our website and the exchanges.

Turning to our Q2 performance, I am pleased to note that both our own brands and wine tourism businesses posted Y-o-Y revenue growth, albeit modestly. This marks the 10th consecutive quarter of growth in our all-important own brands segment. This is a significant achievement, given the challenging business environment we faced during the first half of this year. It's also worth pointing out that Sula has continued to consolidate its position as the market leader in wines nationally. Collating the data from various states, it's clear that we have gained market share nationally.

Now, to elaborate a bit more on the current business environment, we are witnessing a temporary slowdown in consumer demand across discretionary categories including alcoholic beverages, particularly within urban India, which does represent more than 90% of Sula's customer base.

Post-COVID, we saw a surge in domestic wine consumption which lasted until last year, as the consumer did a bit of cocooning at home and splurged on creature comforts. However, it now seems that that level of growth was unsustainable, and we see calendar year 2024 as a year of some demand reset as consumers grapple with rising inflation and cost of living. Furthermore, we encountered temporary disruptions in key states of Karnataka and Delhi, which further impacted our Q2 revenues.

To provide more context here, in Karnataka, retailers were initially hesitant to stock up due to recent changes in the exercise policy, which introduced pricing uncertainty. This situation has since mostly stabilized after clarity came in from the state authorities, and we have started seeing already a recovery in sales there.

Hi, this is Rajeev Samant here. Looks like we lost contact for a while. We are back. I hope you heard my point about Karnataka. In Delhi, the excise portal was offline for much of the second half of September as they migrated from external management to in-house management of the portal, and which impacted sales during this transition. We were, in fact, unable to ship goods for most of the second half of September in this very important market. Luckily, Delhi's portal is now mostly back up and running.

Despite the challenges, we definitely saw some positive trends within our own brands segment that really stood out. First, our elite and premium portfolio performed well given the current market backdrop, recording 7% growth, with double-digit gains across some of our iconic elite brands such as The Source, which I would like to say has been a particular success for us, RASA and Dindori. Our Shiraz Cabernet, that is the Sula Shiraz Cabernet, India's highest-selling wine, also closed the quarter with double-digit growth.

Revenue excluding our top two states of Maharashtra and Karnataka grew 6% Y-o-Y. This growth was powered chiefly by Telangana, with Himachal, MP, Chandigarh, Uttarakhand, and West Bengal, among others, also seeing high double-digit growth. This is really an encouraging trend and a promising sign of our progress in establishing Sula as a pan-India brand and wine across India. Telangana, our third-largest market, particularly stood out as a bright spot with more than 50% growth in Q2.

As we highlighted last quarter, given our wide portfolio of almost 70 labels, including our imported wines, we decided to shift to a third-party sales model for our economy and popular brands in Maharashtra, starting with Mumbai and Pune in Q1. The early results of this have been extremely encouraging, and we have started rolling out this strategy in the rest of Maharashtra, with a plan to move our entire popular and economy to the third party by Q1 FY '26. This strategy frees up the bandwidth of our own internal sales team, who were struggling with the proliferation of brands, to focus much more on the elite and premium categories.

Coming now to a quick update on our wine tourism business. Our wine tourism business also faced challenges during the quarter due to deterioration in road infrastructure and also a surge in outbound travel. A lot of our people have been traveling to foreign countries, particularly I would highlight Thailand and Vietnam with their very easy travel policies, and with extremely easy and cheap flights available today from almost every Indian city. It has led to a surge in outbound international travel, and unfortunately our inbound travel has not kept pace, and this has helped lead to a flattish scenario.

This came in despite the significant drop in footfalls as our spend per head went up considerably, offsetting the impact of lower footfalls. This is definitely a good sign. It is worth noting here that we reached an all-time high footfall last year with 4.35 lakh visitors across our various campuses. This was, I must say, highly unexpected, even for us. And we do believe that this is sort of the peak optimal footfall, not including the SulaFest.

Our infrastructure was being severely challenged by the sort of onslaught of visitors. Visitor numbers have definitely moderated this year, but I am pleased to say that we are seeing spend per visitor up something like 9%. So, going forward, we are going to be refocusing on a more premium experience and higher spend per head rather than looking for more footfall. We think at 4.35 lakh footfall, that may just have been our footfall peak.

Spend per head and tastings, these will be the two key metrics for us. On both fronts, we did pretty well in Q2. Spends per head, as I just said, grew 9% Y-o-Y. And pan-India tastings are up 6% in Q2 to over 50,000, so an all-time high for Q2. And tastings are extremely important for our future growth. So, this is definitely something to be hopeful about.

There's also good news on wine tourism with a number of openings slated to happen in this quarter itself, which we had announced these projects in previous quarters. So, I am excited to announce that our new expanded Dindori Tasting Room and Bottle Shop is now open to visitors at the erstwhile ND Wines. This facility, as some of you might be aware, is strategically located less than 50 kilometers from the Gujarat border. And we have high hopes for the success of this new Sula Dindori Bottle Shop and Tasting Room.

Furthermore, the ongoing expansion of our wine tourism facilities at Domaine Sula near Bangalore is slated to complete in Q3. So, we have a beautiful new tasting room there with a beautiful vineyard view, a bit akin to our facility in Nashik, which was a bit lacking until now. It's a wholly new building that we have built there, and it promises to really expand and enhance the experience for our visitors. And by the way, visitor numbers to Domaine Sula growth continues to be strong, and we have high hopes for this property.

So, in summary, we expect these expansions, along with the upcoming SulaFest, to provide a boost to our wine tourism business and contribute positively to H2 performance. And in particular, we are looking to return to healthy growth from Q4, in fact, from December onwards.

A little bit further out, next year in FY '26 we have the 30-key resort coming up near our York Winery in Nashik, which will expand our total room capacity by 30% from 104 keys to 134 keys. And as I have mentioned previously, this will also have convention facilities for the first time on a much larger scale than what we have been able to offer so far.

Now, a few general corporate announcements that I would like to talk about. As most of you are aware, Karan Vasani, our COO, has resigned for personal reasons and will be moving on in December. I would like to take this opportunity to express my sincere thanks to Karan. We greatly appreciate all his contributions to the success of the company over the last 11 years, first as Chief Winemaker, and then for the past year as COO. We would definitely miss him. But at the same time, I would note, and I would thank Karan for having put in place a highly capable team that's fully geared to take over his responsibilities. And Karan himself is in the process of ensuring a very smooth handover and seamless transition in his last few days here.

Moving on, I would like to warmly welcome Anant Iyer who joins our Board as an Independent Director. Anant is currently the Director General of CIABC or the Confederation of Indian Alcoholic Beverage Companies. And he comes with a vast experience of 40 years working in senior roles in alcobev companies and will definitely be adding a lot of value to the Sula Board. So, welcome, Mr. Anant Iyer.

In another Board development, Alok Vajpeyi, who has been our Independent Director for the past three years, will be stepping up to take on the position of Chairman, which was formerly held by Chetan Desai. Alok, a London School of Economics alumnus, comes with a very strong background of working over 40 years in financial and capital markets in very senior roles. And he is also very passionate about tourism and consumer goods. I am sure with Alok, our Chairmanship is in capable hands.

I would also like to express my and our sincere gratitude to Mr. Chetan Desai – Chetan bhai, who is stepping down as Chairman after a long six-year stint, which was marked by a strong growth in profitability and a successful IPO. Chetan bhai will very much continue to stay on our Board as an Independent Director and as Chairman of the Audit Committee and will continue to give us the benefit of his wisdom and guidance.

Looking ahead now, we believe that the current slowdown in the urban discretionary demand is, we believe and hope that it's more of a temporary blip and not structural. We remain cautiously optimistic for the second half of the year and should benefit from some specific structural tailwinds in H2. These include the reopening of Andhra Pradesh, which would be after a hiatus of five years for us. We had voluntarily withdrawn from the state five years ago, and we are quite pleased that it is reopening with a more progressive excise policy. So, we hope to be getting back in there pretty shortly.

We will be seeing the introduction of four more brands in CSD. CSD, I should point out, has shown very strong growth over the last 18 months or so. And we will be introducing four new brands, including our Dindori Reserve Shiraz and also our Source Grenache Rose, our Sula Vineyards Riesling, and our RASA Syrah. So, you can say one wine from each of our important brands, the Dindori, the RASA, The Source, and the Sula. And we have high hopes for this. It's basically almost a doubling of our brands in CSD, and CSD continues to be an amazing growth driver for us. We have high hopes for our sales in CSD in the future.

We are also resuming shipments to BSF after eight months. And BSF did incredibly well for us in the first half of FY '24. So, it was a shame that due to some administrative issues we were not able to be present. We are now getting back in there, and we will get the benefit of that in H2. It looks like the wedding season is looking particularly strong this year. And I am pleased to say that in December our resorts are booked out pretty solidly for a number of weddings after a long time, so we have high hopes for our December wine tourism revenues as a result of that. And this continued momentum in wine tourism would be bolstered by our expansions, as I have just said, at ND Wines with our Dindori Tasting Room and Bottle Shop, and Domaine Sula, as well as the upcoming SulaFest.

A word on SulaFest. We come back after five long years due to overwhelming popular demand. This was a festival that was much loved and had grown into being one of India's iconic festivals. We had to shut down due to COVID. And for various reasons, after that, we decided not to restart. But now we do believe the time is right. It will be coming back in a slightly different avatar. I should point out that SulaFest 2020, we also had a lot of spirits available, in fact close to 30% of consumption was more spirits. This year, February 25, moving forward there will not be any more spirits at SulaFest. There will be beer, so it will be a wine and beer festival, you can say. But of course, the focus will very much be on our wine brands and mostly our domestic brands.

We are looking at this most probably as a biennial affair, that is every two years. We do feel that every year is probably not necessary. Every two years builds up excitement, and it's a little bit easier for the teams also to manage. Because the entire Sula team is very involved in ensuring that all our SulaFest visitors have a great time just like SulaFest in the past.

To conclude, I know it's been a difficult quarter. But our journey is not one of quarter-by-quarter. It's a long-term journey. And we continue to believe very strongly in the immense potential and the growth story of wine in India. And we, Sula, will continue to play a leadership role in this industry for a long time to come.

With that, I would now 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 afternoon, everyone.

Following Rajeev's overview of our business performance and key initiatives, I will now focus on our financial highlights for quarter two and first half of Fiscal '25. As Rajeev highlighted earlier, it was the 10th successive quarter of growth in our own brands segment. The growth, though, was muted due to soft demand environment and high inflation which weighed on discretionary spends, particularly in urban India.

Our elite and premium portfolio grew 7% year-on-year for the quarter, while economy and popular was down 18%. Share of elite and premium in our own brands improved 500 basis points, reaching an all-time high of 78.5% in quarter two. This was driven through strong growth coming from non-core markets, which have a higher mix of elite and premium, the share of which increased 250 basis points year-on-year.

Telangana stood out with a growth of 59% during quarter two. Success of second force strategy, as Rajeev alluded to, also helped Sula's sales force to focus better and drive premium portfolio in Maharashtra.

On the wine tourism front, we saw moderate growth in quarter two, supported by improved occupancy of 74% versus 66% last year, and increase in spend per head by 9% Y-o-Y, which helped to offset the impact of lower footfalls.

Turning to the financial metrics now:

Our gross margins stood at 74%, 78 basis points better versus last year, supported by higher share of elite and premium. Gross profit stood flat at Rs. 104 crores. Our expenses increased by around 21%, primarily due to the higher selling and distribution and marketing costs. The increase in revenue mix of cooperation market by 670 basis points from 44% to 50%, driven by accelerated growth in states such as Telangana, West Bengal, and Madhya Pradesh contributed to higher S&D costs.

Secondly, a stronger focus on trade marketing activities aimed at boosting consumption during the festive period, along with a nearly 50% jump in pan-India tastings to drive category development across the country resulted in higher marketing cost. These investments are in line with our strategy of investing in the brand and distribution strength pan-India.

Continuing on, our EBITDA for quarter two decreased by 24% to Rs. 34 crores as increased market spending impacted profitability in a period of muted sales growth. Interest costs rose by 16%, primarily due to an increase in total borrowings needed to fund higher working capital. Total borrowings grew from Rs. 260 crores in September '23 to Rs. 330 crores as of September 2024.

The higher utilization of working capital was driven by an increase in receivables. A significant rise in revenue contribution from Telangana, which has a relatively higher DSO, was the primary factor behind the increase in receivables. However, the collection situation in Telangana has significantly improved, with quarter two collections being 2.5x of what we collected from the corporation in Q1. While borrowing has increased, our net debt-to-EBITDA continues to be comfortable at 1.8x, well below our own benchmark of 2x.

Our outstanding WIPS balance, which is the Wine Industry Promotion Scheme, as of 1 April, '24, was Rs. 73 crores, with Rs. 20 crores being accrued during H1 and Rs. 10 crores led by the unwinding of the previous accumulated WIPS. We subsequently received Rs. 10 crores in July 2024, taking the WIPS receivable in our balance sheet to Rs. 94 crores. We are happy to report that we received a further payment of Rs. 22 crores in October, bringing the WIPS balance down to Rs. 73 crores currently. We remain positive to realize the balance amount in FY '25.

Before we move to the Q&A session, I would like to highlight a significant step forward in our digital transformation journey this quarter. We successfully transitioned from SAP ECC6 to cloud-based S/4 HANA through a brownfield implementation, which was completed in a d five months well lower than standard implementation time. This upgrade will enhance operational efficiency, enabling transaction processing to be nearly 40% faster and improving access to real-time analytics, positioning us to make more data-driven decisions with greater speed and accuracy.

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

Moderator: Thank you very much, sir. We will now begin with the question-and-answer session. The first question is from the line of Aditya Soman from CLSA. Please go ahead.

Aditya Soman: Sir, two questions from me. So, firstly, do you think it's necessary to set up more wineries, especially opening up in new states, one, is it feasible? And second, is it necessary given the sort of tax differences in different states to ensure that we have sort of the most optimal pricing in at least the larger states? So, that's question one. And the second question on wine tourism, you indicated that there's a focus on higher throughput rather than higher footfalls. Is that a function of effectively occupancy being maximized and now you are looking for higher throughput? Or is it just a function of higher throughput being sort of more profitable?

Rajeev Samant: Yes. Hi, Aditya. I will answer those questions. In terms of new wineries, you are absolutely right that the time has come for us to look at other states. And in fact, we are taking a close look. And I believe that more likely than not, within the next one year or so you would see some action on that front. We are seriously considering which should be the third state where we should set up a winery, and we are very much on that project.

In terms of wine tourism, occupancies in fact can go up further. I would like to here distinguish between daytime footfall and visitors staying overnight. So, in terms of the daytime footfall, that's what has really come down, in fact, by double digits in H1 over last year H1. In fact, in terms of occupancy, our occupancy is slightly ahead of last year; last year H1 was 70%, this year is 72%. So, in fact, good news on that front. And I do feel that we can do even better. So, there is still room to go up in terms of occupancy.

We continue to see the trend where we are booked solid on weekends, but there is definitely scope during weekdays. So, when we add these new rooms, we expect to see those also pretty soon fill up on weekends. It is weekdays where we are really focusing on trying to drive more traffic and more overnight visitors.

Aditya Soman: And maybe just to follow up on this. Since I mean the weekdays are an issue, would it also make more sense to have these wine tasting rooms in the big cities or in the metros, so that way the weekday occupancy overall consumption goes up and you can also have greater discovery?

Rajeev Samant: Yes, it definitely could make sense and again, it's something we are looking at. At this point we have been very focused on our sort of vineyard districts; you can say our winery districts. But moving forward, we do look across at the example of The Beer Cafe, for example. It makes sense, it's an attractive model and definitely in terms of wine, there's a lot of work to be done in the urban cities, in the metros as well.

Moderator: Thank you. We will take the next question from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Yes, my question is on the Delhi market. So, if you could tell us in terms of rules and regulation, how tough it is. Because clearly, there was a flip-flop, and that market went back to the stricter norm. Second is in India, leakage always happens in a tough market, so from rest of the NCR a lot of leakage was anyway happening. So, how much is the real shift in the new portal which has already come up?

And third is, when do you see your numbers or the industry numbers go back to the pre-flip-flop, when the flip-flop had not happened and things were going quite well in the new liquor policy, that time's numbers when do you see that coming back?

Rajeev Samant: So, you are absolutely right, Abneesh, that Delhi has gone through some difficult times, you can say, in terms of the excise policy. And I believe that our numbers have not yet actually come back to the pre, as you call it, the pre-flip-flop. I would say the previous regimen where there was a lot of very high-quality private wine shops, you can say liquor stores that opened up, which definitely led to a surge in sales of premium products, including our wines. Now, we have a state-owned shop policy in Delhi. It's been stable now, I would say, for the past one year and we have seen some growth over that year, but we are still not back to the previous numbers.

Haryana, on the other hand, was a standout in FY '24 with pretty spectacular growth. I cannot comment on the leakage. But now in Haryana also FY '25 has been a bit muted. But I do look forward to the day when in Delhi, hopefully, there's a more nuanced policy and there is some scope for private players. But I cannot comment on that with a crystal ball. If that does happen, I think we would again see a nice uptick in our sales there.

Abneesh Roy: Sir, my second question is on the overall consumption comment which you made. Other liquor companies, especially in spirits, the market leader is expecting H2 to be much better, partly because of base effects for them. In your sense, how much slowdown is still going to be there in H2, given the food inflation is quite high, the rental inflation is high, the job salary addition has been weak, which other FMCG companies have already highlighted. So, would you agree with what the number one spirit company is saying, at least the number one listed spirit company is saying, that in H2, the good demand recovery is there in the wine part of the business: not in the tourism part of the business, in the wine part of it?

Rajeev Samant: Well, we are very hopeful for Q4. Q3, we do continue to see some challenges ahead. One of the things I would like to bring up is in terms of tourist flows. We are still sort of stuck in terms of international arrivals, and I do hope that the government is working on this and is taking this matter seriously in boosting international tourist arrivals. I hope that we will see some kind of liberalized measures in terms of visas, etc., along the lines of what some of our neighborhood countries are doing. And if that happens, because right now I am sure everybody has seen those numbers, that we are still quite a way behind 2018 and 2019, that will also very much help us.

Moderator: Thank you. We will take the next question from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: I was just listening to the commentary that several of the states have done well, but overall top line is flat, which means that Maharashtra, which is our biggest state, that would have seen some decline. So, apart from the poor consumption sentiment, is there any other reason why Maharashtra has seen this kind of performance?

Rajeev Samant: Yes. So, you are absolutely right that Maharashtra has seen the hit. There have been a few factors in Maharashtra. Pune was definitely hit. There was the infamous Pune Porsche incident, which basically shut down on-trade institutions, I would say, for something like two months. And Pune has become our number two city in terms of sales in all India. It had become until FY '24. So, that was a big hit, and South Mumbai in particular has seen a lot of softness.

In the rest of the state, I alluded to this fact of us rolling out the second force strategy. Popular and economy did see a hit, and I do believe that we lost some market share in the popular and economy segment. We have been very focused, as I have been saying, over the last few years on premiumization, but there was a stall in that, and we did take some hit in popular and economy.

However, I am pleased to say the initial results from our new strategy in terms of hiving off the popular and economy from our own company sales force and giving it to a third party is looking very encouraging, is looking very positive. Looks like we have managed to stem that, and we are turning it around. So, we are going to go full speed ahead on that and I do hope that that's going to show some positive results in the months ahead.

Percy Panthaki: Just two follow ups on this. One is in South Mumbai, what exactly was the reason for the weakness? And secondly, this distribution system, which you sort of have a different one for the lower-end wines now, does that not impact your cost negatively, because now you are replicating sort of two distribution systems. I am sure you must be paying the third party something for the distribution, which was earlier done by existing network. So, I mean, what was the decision, I mean, the reason behind the decision to duplicate the cost here?

Rajeev Samant: Sure. So, we have thought this through very carefully. It has not been a hasty decision. It's been a few months in the works and the way that we have worked it out, in fact, we will not see any significant impact. So, we are going to be streamlining our existing sales team as well. I mean, we have already begun that. And our sales team does tend to be much more highly paid, in fact, and with more benefits than some of the third-party sales team. So, there is some cost opportunity there. So, we are not going to see a significant cost hit as a result of moving this to a third party. We have worked that out well.

In terms of South Mumbai, a few factors. South Mumbai, actually, in terms of population, it is probably the one place in India where population over the last decade has not grown. If anything, the population is degrowing. The population is, I am sorry, this is a pretty big picture situation, but it's degrowing, it's aging. And there's a huge amount of competition in South Mumbai, in particular, also with regards to imports, as well as the big thing for us, for our premium wines in South Mumbai has been the emergence of tequila as a particularly strong force.

Today, you have something like 100 tequilas in the market. If you just look at pre-COVID, there was probably five tequilas. Today, there's 100 tequilas, and I must say that it is, we do see that anecdotally, and it's very visible that with a certain kind of audience, a more affluent, we are talking about a much more affluent audience, tequila is definitely making an impact. We hope that this is not some kind of a thing that's here to stay in a big way, but definitely, we do see it having an impact for the moment.

Percy Panthaki: And this imported wines issue, is that something sort of one-off in nature, or is this more sort of long-term continuing issue which you are sort of alluding to?

Rajeev Samant: See, there is two very different scenarios here. In terms of all India, in fact, sales of imported wines seem to have come down as per the latest IWSR report. So, particularly, what that points to is the number one imported wine, which is Jacob's Creek, by far and above number one, in the latest IWSR shows shipments to India down 20% year-on-year. However, if you look at South Mumbai, it is a very different scenario. You have a lot of very active importers, you have a lot of exposure, we have very well-traveled citizenry, you can say that, etc., etc. So, you have seen there is a proliferation of brands. I would say, again, there's sort of 10x the number of brands available today as compared to what there was six or seven years ago. And you have a large number of new importers. So, you have two very different pictures looking at Mumbai and looking at India.

Moderator: Thank you. The next question is from Keshav Garg from Counter Cyclical PMS. Please go ahead.

Keshav Garg: Rajeev, I must tell you on behalf of all the shareholders that the numbers are really disappointing. Our revenue seems to have stagnated, the working capital is up, the debt is up, the margins are down, and even the promoter shareholding also keeps on falling down. So, I am not able to understand that on such a low base, despite all the things you alluded to, why we are unable to grow if we see the rest of the liquor companies on a far higher base.

Though I understand they are not selling wine, but it is the same liquor category. They are growing and their margin profile and their working capital is far more better than what we are. So, I am not able to understand that, I mean, despite having such a high market share that we claim to be having, somehow, it is not reflecting on the numbers. So, in your judgment, what has to happen for things to improve?

Rajeev Samant: See, I hear you. I want to point out something that we have had three years of fairly spectacular growth and now we have had a couple of quarters where things have not panned out as one would have hoped for. And I want to give a sort of an adage that when you are climbing a mountain, it's not straight up. Sometimes, when you are climbing and sometimes you reach a sort of plateau and then again, you climb. So, I would not like to compare with what's happening with the rest. I would say that, coming out of COVID, we went out of the gates very fast. And perhaps to some extent, a few things have come home to roost now. But I certainly hope and expect, and we are working hard on it that we will continue our upward climb very soon, very shortly.

Some of these metrics, yes, you are right, that some things are not looking as good as what they did about a year back. I would like to say that we had what we would say is really perfect conditions all descending on us all at once. And then right now it's been a bit tougher, but I do see, I am very optimistic for the way ahead. Wine continues to be absolutely minuscule in our country. Sula is by far the most iconic brand. We are making strong progress across a number of states. Yes, in our home state of Maharashtra, there have been certain challenges. There have also been, I would say, some kind of unsustainable discounting by some of our competitors. Unfortunately, the market does not have the kind of depth to allow it to easily withstand this.

So, there is a fair amount of wine that has been produced, which is unfortunately being discounted in the market. That has very much impacted, because you see the sales in Maharashtra, we report them net of S&D. So, when S&D expense is high, you don't see net sales growth. So, this is a factor which I really hope that at some point, this unsustainable discounting will not be, it will not be sustainable. And we can come back to some amount of normalcy in the not-so-distant future.

Keshav Garg: Also, sir, what is the situation with the FTA countries like Australia and I believe even Switzerland? Are duty-free wines coming from these countries into India? And what's the tax incidence on imported wine versus our wines in the rest of the country like apart from Karnataka and Maharashtra?

Rajeev Samant: Yes. So, in terms of FTAs, an early FTA was signed with Australia in which there was some reduction on wines above a certain price threshold. FTA negotiations are still going on. I mean, Australia is probably the most likely to have the second comprehensive FTA signed fairly soon. We very much have a seat at the table, and we are watching it closely. I don't want to say more than that, but I do believe that the Government of India is very cognizant of the fact that wine is a sunrise agro-based industry in India and therefore, it's a very farmer-friendly industry. I have pointed out before that in a bottle of wine, a farmer makes more than pretty much on any other agri-based product that is available on the shelf. And this is something that the government certainly is not going to forget.

So, I think even if there is some further concession, I am hoping, and We are going to be pushing for that also, that it'll be something, some minor concessions. It should be expected that that will be happening. On wines now above $15, I think tax is going to come down as low as 25%. On wines above $5, please note, these are CIF prices, tax is going to come down as low as 50%. But for wines below that right now, below $5 CIF, it's 150%. It remains at the 150% threshold.

We will take the next question from the line of Praneeth Acholu from Kotak Institutional Equities. Please go ahead.

Praneeth Acholu: So, sir, firstly on the sales and marketing spend, the costs have been up for the last two quarters, right? So, till when are we looking at this elevated spend? And how about the outlook for the next year for these S&M spends?

Abhishek Kapoor: Hi, Praneeth. I will take this question. So, Praneeth, yes, you are right in your observation in terms of the elevated market spends which have been there in this financial year. Two reasons for that. One, of course, as you have seen, that higher mix of sale, which is coming in from outside of our core market of Maharashtra and Karnataka. The structure over there is where it requires a higher marketing cost.

Another key reason for that is as we are reaching out to more and more number of consumers, we are also conducting a lot more on tasting sessions pan-India. As Rajeev had alluded to this sometime back that we have seen a 6% growth in the number of tastings which we have done thus far. So, this is going to continue as far as our efforts on getting more consumers is concerned.

Now, the second aspect to that, which is the heightened intensity by some of our competitors in terms of S&D being spent in the market. Please take note of the fact that while on the upper end of the segment, which is all the premium wines, we do not do that kind of a discounting. And at the lower end of it, we have already given this through a second force strategy model in Maharashtra.

So, yes, to answer your question, I mean, we don't see that this is a sustainable practice which is being followed by some of the competition. And we hope that this will soon come to a sort of a stable state.

Praneeth Acholu: And the second one is on the reopening of AP market. So, before 2019, can I ask you what could be our volume salience in this market? I mean, is it very negligible or anything like, I mean, any rough sense?

Rajeev Samant: It's not going to be very significant. I must admit that it's not going to be to the level of what certain spirit and beer companies will see. Andhra Pradesh is not a significant wine market. But, of course, for us, every new market is an opportunity, and it's an opportunity that plays out over the medium term and long term. In the short term, we are just concentrating right now on getting all the paperwork done, the regulatory things done, and at least get our first shipment out there. We are really concentrating hard on getting it out there within Q3 itself. So, at least it will give us a nice little boost in Q3 itself, because we will be going into a totally empty state in terms of wine.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. Rajeev Samant for closing comments. Over to you, sir.

Rajeev Samant: Thanks a lot, everyone, for joining. And thanks for all the questions. I hope they were illuminating to everybody who was on the call. With that, I think we close out this conference. And here's to better times ahead.

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