
Sula Vineyards

CHAMPIONING WINE IN INDIA

The Indian wine market has performed very poorly in recent years when compared with its counterpart in China, but one dynamic company has bucked that trend. As Subhash Arora reports, Rajeev Samant of Sula Vineyards is quietly revolutionising his country.

The profitabilty and sustainability of India's young wine industry is far from established. Sula Vineyards is not only the leader in volume terms, but is also a well-established and profitable brand in both the domestic and international markets.

India's wine drinkers consume 34m bottles per year, including 16m bottles of inexpensive Goan 'Ports' and 4m of imported wines. Sula represents nearly a third of the total market, with annual sales of 10m bottles and counting.

The ground floor

The company was founded in Nashik in the state of Maharashtra by Rajeev Samant, who entered the nascent wine industry in 1998 after returning from studying at Stanford in the US. After experimenting with growing fruits at the family orchard and finding the business unviable, he decided to switch to wine grapes and produce wine in collaboration with a consultant from Sonoma.

Samant's father who hails from Nashik was apparently keen to sell off the land but failed to find a buyer prepared to pay his asking price. At that time, Chateau Indage was the unchallenged wine leader, initially with sparkling wines made from Thompson Seedless grapes, followed by table wines at various price levels. Grover Vineyards had pioneered in wine grapes and in collaboration with Michel Rolland had started production in Bangalore in Karnataka in the mid '90s, with limited distribution infrastructure.

Sula's first vintage was released in 2000 with a fresh, clean Sauvignon Blanc that became an instant success in a market that was dominated by unimpressive Chenin Blanc. Keen to show the wine to foreign experts, Samant took samples to Vinexpo Asia Pacific in Tokyo in 2002. He tasted the wine with Angelo Gaja, who was impressed with its distinctive style.

Eventually, Gaja ordered a small quantity for sale in Italy through his distribution company in Barbaresco. This helped to boost Sula's marketing efforts and to build demand for other styles. Samant had no red grapes, so temporarily decided to import Merlot bulk wine from Chile.

With the aim of expanding his distribution channels and market share, Samant added sparkling wines and some imported wines to his portfolio. He was also highly active as brand ambassador, happily flying from Mumbai to Delhi to address to a wine club dinner, and thence to Canada to host a tasting with potential customers. A keen wine enthusiast, he was as easily approachable as his Sauvignon, Merlot and the Brut that he unabashedly admitted was made from Thompson Seedless. Using these inexpensive grapes kept it simple but fresh and fruity for early drinking. It was also highly profitable.

Land is expensive and difficult to buy under the land acquisition laws in Maharashtra. Samant approached local farmers who were already growing table grapes and offered them long-term contracts as an incentive to change to wine grapes. This helped to ensure supply as Sula expanded. He says: "My family and friends own about 300 acres of vineyards including the original 13 acres where we have set up the winery. Around 2,000 acres have been on long-term lease or contracts with farmers in Maharashtra as well as in the state of Karnataka close to Bangalore." He says that an expected shortage in the supply chain means they are planting 400 new acres under contract.

Karnataka is the only state other than Maharashtra where wine is produced and has an integrated wine policy; Bangalore is the third biggest market in India after Mumbai and Delhi. Both states have protectionist policies that deter the import of out-of-state wines by imposing hefty import taxes. To avoid these, Samant signed contracts with farmers there as well and leased a winery in which to produce his Karnataka wine for the local market. This strategy was similar to the one adopted by Grover when it merged with Zampa Vineyards in Maharashtra.

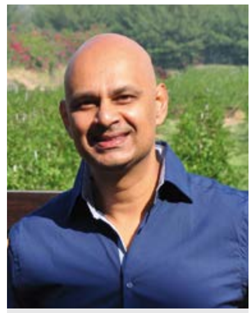
The big moment for Samant and Sula came in 2008 and 2009 when the wine industry took a nose-dive, partly because of the terrorist attack in Mumbai in November 2008, and followed by the global meltdown that swallowed Indage Vintners and drove it to facing bankruptcy. Samant introduced several new labels and prepared to fill the vacuum left by Indage.

During the period of expansion, Samant carefully watched the private equity market, raising funds when necessary to enable him to grow the company. While he is unwilling to discuss figures, it is known that he started with an investment of less than €1m ($1.05m). Based on the last infusion, the present capitalisation is estimated to be around Rs. 7.5bn (€118.5m). Encouraged by the strategy, newer producers like Fratelli, Charosa and Alpine are also seeking strategic alignments.

Wine politics

Having seen the cellar door sales success enjoyed by California wineries, Samant opened a smart tasting room at a time when his competitors were struggling to cover their day-to-day overheads. This was followed by pitching tents to allow overnight stays and then ‘Beyond by Sula’, a TripAdvisor-award-winning luxury 32-room resort, conference centre and spa. His experience at Stanford where they used to have regular rock concerts encouraged him to start a wine festival in 2008. While the first Sulafest only attracted a few hundred people, there is now a purpose-built amphitheatre and an annual two-day festival held during the first weekend of February that brings in 15,000 people from India and overseas every year.

Not all his experiments have been as successful as the festival, and Samant has learned the limitations of the Indian market. Vinoteca, a Spanish style wine and tapas bar in Mumbai, didn’t take off. It closed last year and plans for further bars were shelved. Samant does not like quasi-government bodies and decided against becoming actively involved with the Grape Processing Board – IGPB - a government body formed with the intent of partnering with private industry to help promote Indian wines. Despite his import distribution business, he is vociferous against any cuts in import duties. “I have no problems with the more expensive, higher quality imported wines because we don’t make that high quality and these are not our competitors,” he says, “but we cannot let the government harm the local industry.” He also takes up cudgels for the Indian producers and meets senior government frequently to impress upon them the need for five-star hotels that are able to sell import duty-free wines, along with Indian wines. He explains that the current arrangement means that cheaper foreign wines cost even less in these establishments than the Indian wines and are generally preferred by customers.



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Rajeev Samant, founder and CEO of Sula Vineyards

However, Samant avoided contributing financially to the IGPB as expected by the government. Encouraged by his refusal, other producers, already strapped for funds, are similarly unwilling to contribute, and the survival of the board hangs in the balance.

Unchallenged leader

One of the reasons Sula has been profitable is because it’s a lean outfit. Taking a dig at Indage and possibly Chandon with their big PR budgets, he says, “Unlike some of our competitors we have kept our overheads as low as possible and we spend minimally on PR. I believe each of our marketing persons has a positive PR role to play.” He also boosts profitability by including beverages such as beer and Cointreau in his imports portfolio. “We are never going to produce spirits but if we can increase our leverage by adding these products, why not? I am not a purist in the strict sense,” he says, justifying the gradual increased presence of non-wine beverages at the Sulafest.

Sula has also been working closely with Remy to make grape brandy for the first time in India and is rumoured to be set to announce that Sula has bought the total share of this business. Remy has announced that they are closing their office in India but they are expected to remain as consultants on this project.

In less than a decade, Sula has become the market leader with a 30% share of the total market. The company continues to buck negative trends by registering steady annual growth of 15% to 20%. Samant insists that their focus is on premium labels. “There has been a 17% increase in volume in 2014 to 2015, but a 21% increase in value. Riesling has registered a jump in sales of 75% to 80% even though the volumes are small. It is our policy to increase sales value and not volume. For us it is making good wine or none at all,” he says.

Thanks to Sula’s efforts. Indian wines have now found a niche in international markets. Sula Dindori Reserve Shiraz was listed at number 25 in The Wine Enthusiast 100 last December. Sula already exports half-a-million bottles to 30 countries, making it the most recognised Indian brand globally, despite low margins in exports, no subsidy or help from the government.

“The good news is that India has moved into mainstream markets during the last couple of years from the niche market of Indian expats or restaurants,” says Samant, outlining the achievements: “We have exported over 15,000 nine-litre cases to Marks & Spencer and Direct Wines in London, who are retailers of premium wines and not only to the Indian food segment.” He says the company will finish the year with exports of 40,000 to 50,000 cases, which they hope to take to 80,000 cases in three years. “However, the strengthening of the Indian rupee against both the British pound and euro might make the task more difficult, especially because we were obliged to increase our prices by 15% to partly offset devaluation. We are waiting to see how the market responds to that.” ■