

Sula Vineyards: India's case for wine

When foreign sommeliers come to India, they come with very low expectations. After all, India is better known for its cotton industry than wine production. However that is now changing.

In 1993, Stanford-trained engineer **Rajeev Samant** left his job at Oracle in Silicon Valley to follow his entrepreneurial spirit “to do something on my own.” He wasn’t quite sure what he’d be doing when he came home to India.

One day his father showed him their 30-acre family farm in the hill station of Nashik, 180 kilometres from Mumbai which he had wanted to sell. Samant started growing mangoes on the site but soon realised that traditional agriculture in the region was not profitable. He noticed that a lot of table grapes were being grown in the area but no one was making wine.



“Nashik was 600 metres above sea-level and close to the west coast. That

gives it the cool climate and protection from the monsoons - ideal conditions for growing wine grapes,” Samant told INSEAD Knowledge.

“That seemed like a great opportunity for wine production. Moreover with the way things were looking in India economically, there is bound to be a demand for wine.”

In 1996 and 1997, with the help of Californian winemaker Kerry Damskey, Samant grew five acres of grape varieties never planted in India before: Sauvignon Blanc and Chenin Blanc, under the brand ‘Sula Vineyards.’ They used New World techniques because India didn’t have a tradition of wine-making. In 1998, money was raised to build the winery.

Pioneering work



In 1999, the modest Sula Vineyards with its iconic sunburst had its first crush, and in 2000, sold its first bottle of wine.

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Wine Spectator, a leading wine magazine, did a five-page feature on Sula in November 2002, a proud first for an Indian winery, says Samant.

His Californian philosophy of allowing one and all to visit the winery was unheard of in India where a handful of wine growers kept the secret of wine making close to their chests.

“After Sula’s success and having seen the process of making wine for themselves, farmers thought this can’t be that difficult and decided they could also make wines,” Samant recalls. “Soon many in the neighbouring farms - people who have never tasted wine before - jumped on the bandwagon and started their own wineries. That regretfully resulted in wines that were not of very good quality.”

Undeterred, Samant continued to experiment with new varietals. Ten years on, Sula Vineyards has expanded to 1800 acres and produces three million litres, which constitutes some 75 per cent of India’s wine.



“We now have 18 wines including Cabernet Sauvignon, Shiraz, Zinfandel, Merlot, Viognier, and Riesling in our portfolio,” says Samant. “In 2005, Sula launched its first reserve wine, the Dindori Reserve Shiraz and India’s first dessert wine, the Late Harvest Chenin Blanc.”

In the process, Sula has placed itself firmly as India’s leading premium brand by concentrating on quality. “The wines are exported all over the world and feature on the wine lists of some of the world’s finest restaurants,” says Samant. “Today Sula Wines is India’s number one in terms of consumer perception and sale.”

Challenges

It took more than two years to obtain the necessary licence to make wine. “We were the first company to apply for a licence in our state in 15 years,” he says. “We decided to change tack with the powers that be: don’t think of this initiative as alcohol production, think of it as a benefit to grape growers, increasing rural employment. And that struck a chord with the government.”

Banks were not willing to lend as there was no track record. So Samant borrowed from friends and

family. “My father’s bank eventually made me a loan, solely on the basis of his 35-year custom with them,” he says.

Another challenge was marketing. Not only were Indian wines not heard of, they were more expensive than some French wines sold in India.

“Today, things are different - banks are happy to lend us money and Sula wines have become a cool wine to drink,” says Samant.

Growing the market

The biggest challenge is to grow the market. In India, annual wine consumption is 10 millilitres per capita compared to China’s 400ml. “I’d like to see consumption in India grow from 10ml to 100ml per capita,” Samant says. “To achieve this, we go out to rural areas and do tastings and education on wine.”

Alcohol consumption is a state issue, not a federal issue. Karnataka, another wine producing region, imposes huge state duties on Maharashtra’s wine, and vice versa.

“We need to get these people to talk to bring down the duties and have free trade zones for wine within India,” Samant says.

The other challenge would be getting the rest of the world to find Sula Wines acceptable.

Broad-based clientele

When Sula started operations, they sold their wines in the four main cities of India. Their customers were the wealthy Indians, tourists and expats, recalls Samant.

Today the clientele is more broad based and the consumption has moved out to the upper middle class in Tier-2 cities, such as the state capitals, and tourism areas in Maharashtra and even the rural areas.

Sula Vineyard trees - INSEAD Knowledge

“Currently we have one per cent of the population drinking wine. What I would like to see is five per cent over the next ten years; that would be huge in absolute terms. Imagine the amount of grapes we have to plant -- triple shifts and increased acreage,” says Samant. “We do not focus on exports because we don’t need to; there is a huge market here we can tap.”

Sula became profitable from the second year. Because of the fast-growing market, it has been reinvesting its profits every year. Revenue was \$12 million in 2008 with profits of one million dollars.

Riding out the economic downturn

India is one of the fastest-growing wine markets in the world, with growth of more than 25 per cent a year over the last four years. “That was probably not sustainable and so with the economic meltdown last September, there has been a fall in wine consumption,” says Samant. “Hotel stock levels have fallen by 50 per cent and inventory levels are at a record low.”

But things are beginning to look up and Sula Vineyards hope to achieve double-digit growth this month after 12 bad months.

“In the meantime, Sula has been gaining market share even as the wine market in India has been declining. It currently has 35 per cent of the market - which is a lot for wine,” Samant says. “That’s definitely going to help us a lot when the market picks up.”

INSEAD's Global Private Equity Initiative (GPEI) will be publishing a case study on Sula Wines at the end of November.

GPEI was launched this August to combine the energies and talents of the school's research and educational capabilities with INSEAD alumni and global professionals in the PE industry. It will focus its initial research on new frontiers in PE - emerging markets and the needs of LPs. For more information contact [Laura Morales](#).

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