

Nestle India Ltd.



Result Update

20th October 2022

Nestle India Ltd.

Continued double-digit revenue growth; EBITDA margins expanded sequentially

CMP INR 19,800	Target INR 21,805	Potential Upside 10.1%	Market Cap (INR Mn) INR 19,09,031	Recommendation ACCUMULATE	Sector FMCG
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Result highlights

- For Q3CY22, NEST's revenue increased by 18.2% YoY (+13.7% QoQ) to INR 45,910 mn. The revenue growth is the highest quarterly growth witnessed in the last 5 years. Revenue in 9M CY22 increased by 14.9% YoY.
- EBITDA for the quarter was at INR 10,107 mn, reporting a growth of 6.6% YoY and 21.0% QoQ. EBITDA margin for Q3CY22 was at 22.0%, contracting by 240 bps YoY/ expanding by 132 bps QoQ. EBITDA margin for 9M CY22 contracted by 287 bps YoY to 22.0%.
- Net Profit for Q3CY22 was INR 6,683 mn (+8.3% YoY/ +29.7% QoQ). Net profit margin for Q3CY22 was 14.6%, which contracted by 134 bps YoY/ expanded by 179 bps QoQ. For 9M CY22, Net profit was stable (+ 1.1% YoY) at INR 17,784 mn.

MARKET DATA

Shares O/S (Mn)	96
Mkt Cap (INR Mn)	19,09,031
52 Wk H/L (INR)	20,200/16,000
Volume Avg (3m K)	60
Face Value (INR)	10
Bloomberg Code	NEST IN

KEY FINANCIALS

Particulars (INR Mn)	CY20	CY21	CY22E	CY23E	CY24E
Revenue	1,33,500	1,47,094	1,70,456	1,89,252	2,08,209
EBITDA	32,015	35,915	38,108	45,667	52,472
PAT	20,824	21,449	24,771	29,711	34,465
Adj PAT	20,824	23,814	24,787	29,711	34,465
EPS (INR)	216.0	222.5	256.9	308.2	357.5
Adj. EPS (INR)	216.0	247.0	257.1	308.2	357.5
EBITDA Margin (%)	24.0%	24.4%	22.4%	24.1%	25.2%
NPM (%)	15.6%	14.6%	14.5%	15.7%	16.6%

Source: Company, KRChoksey Research

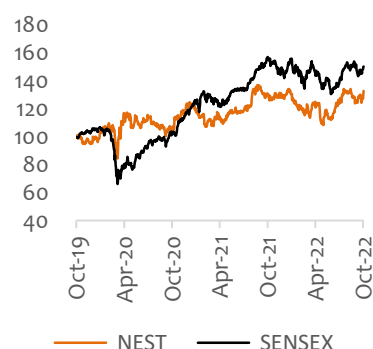
NEST continues to see robust growth across urban and rural India: In Q3CY22, domestic revenues grew by 18.3% YoY (+13.3% QoQ), with a healthy balance between volume and pricing growth. Export revenue (4.5% share of the total revenue in Q3CY22) growth was 15.7% YoY (+29.7% QoQ). In the domestic market, NEST witnessed very strong growth in the large metros and mega cities and continued to see robust growth across smaller towns and rural markets. The growth was in double-digits across categories that the company operates in. In Prepared dishes and cooking aids, growth was driven by MAGGI noodles, aided by media and distribution expansion. In the Milk Products and Nutrition category, MILKMAID saw strong growth. Within Confectionary, strong growth continued due to aggressive media campaigns, festive executions, consumer promotions and focused distribution drives. In Beverages, strong growth was seen in NESCAFÉ CLASSIC, SUNRISE and vending mixes. The e-commerce channel growth accelerated and contributed to 7.2% of sales. The Out of Home channel grew at a robust pace driven by faster channel reopening and business-led initiatives.

EBITDA margin improves sequentially despite pressure on gross margins: NEST's gross profit margins in Q3CY22 contracted by 292 bps YoY and 118 bps QoQ. Despite the pressure on gross margins, EBITDA margins improved by 132 bps QoQ due to a decline in employee expense and other expenses as percentage of sales. On a YoY basis, EBITDA margins contracted by 240 bps YoY in Q3CY22. NEST is seeing early signs of stability in the prices of edible oils and packaging materials while prices of fresh milk, fuels, grains and green coffee costs are expected to remain firm.

Other updates: NEST announced the launch of its first-ever direct-to-consumer (D2C) platform – www.mynestle.in. Initially, MyNestlé will be launched in Delhi NCR and will expand to other parts of the country. The platform will have curated product bundles, personalized gifting, subscriptions, and discounts. Separately, NEST has completed the acquisition of the Pet Food Business from Purina Petcare on 1st October 2022.

Valuation and view: NEST has sustained its double-digit growth trajectory despite a difficult macroeconomic scenario. NEST has seen broad-based growth across segments, both in urban and rural India. NEST's rural strategy is yielding results with a strong uptick seen in rural sales. At the same time, NEST is strengthening its premiumization play. We expect Revenue/ EBITDA/ Adj. PAT to grow at a CAGR of 12.3%/ 13.5%/ 13.1%, respectively over CY21-CY24E. **We apply P/E of 61.0x (unchanged) on CY24E EPS of INR 357.5 (INR 349.7 earlier) and arrive at a target price of INR 21,805 per share (INR 21,334 earlier) with an upside potential of 10.1% from the CMP. Accordingly, we maintain our "ACCUMULATE" recommendation on the shares of Nestle India.**

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	59,107
NIFTY	17,512

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	62.8	62.8	62.8
FIIIs	11.7	11.7	12.0
DIIIs	9.2	9.1	8.6
Others	16.3	16.5	16.6
Total	100.0	100.0	100.0

12.3%

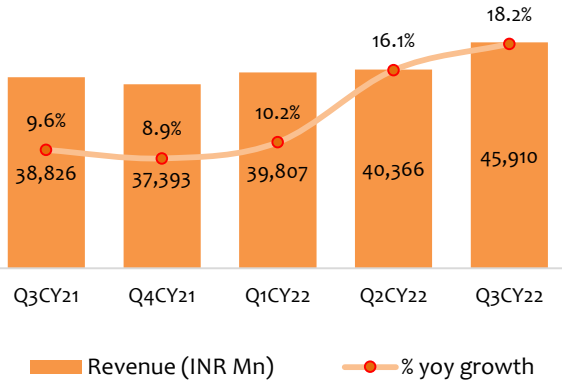
Revenue CAGR between CY21 and CY24E

13.1%

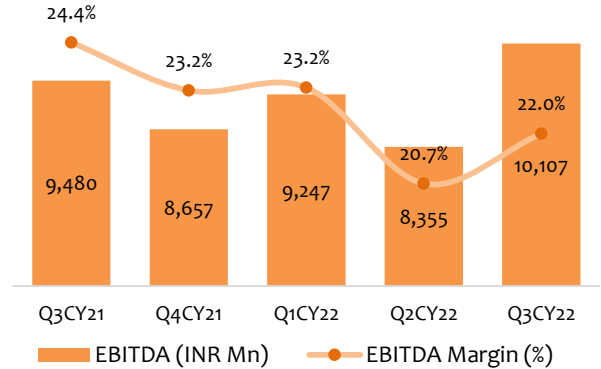
PAT CAGR between CY21 and CY24E

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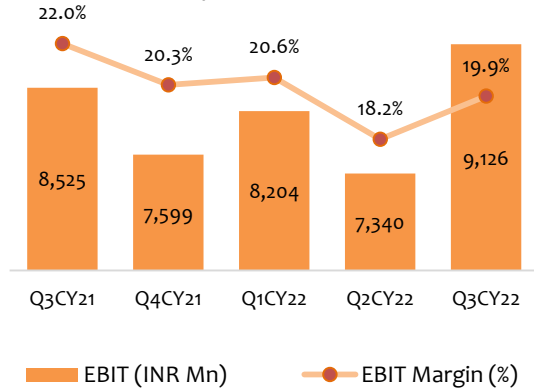
Revenue growth backed by both- volume and pricing growth



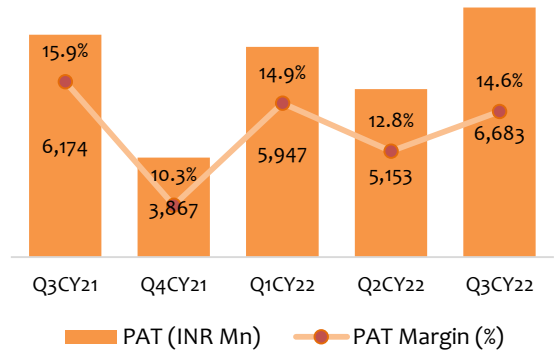
EBITDA margin improved QoQ despite gross margin pressure



EBIT margins improve QoQ, but still under pressure YoY



Profitability improves in line with operating performance



Source: Company, KRChoksey Research

Q3CY22 Result

Particulars (INR Mn)	Q3CY22A	Q2CY22A	Q3CY21A	Q-o-Q	Y-o-Y	9M CY22	9M CY21	Y-o-Y
Sales	45,910	40,366	38,826	13.7%	18.2%	1,26,083	1,09,701	14.9%
Total Expenditure	35,803	32,011	29,346	11.8%	22.0%	98,374	82,442	19.3%
Cost of Raw Materials	19,528	18,474	14,993	5.7%	30.2%	56,461	44,912	25.7%
Purchase of Stock	691	790	581	-12.5%	18.9%	2,222	1,670	33.1%
Changes in Inventories	1,461	-681	1,625	-314.6%	-10.1%	-663	541	-222.6%
Employee Cost	4,179	4,084	3,883	2.3%	7.6%	12,229	11,347	7.8%
Other Expenses	9,945	9,344	8,265	6.4%	20.3%	28,125	23,973	17.3%
EBITDA	10,107	8,355	9,480	21.0%	6.6%	27,708	27,259	1.6%
EBITDA Margin (%)	22.0%	20.7%	24.4%	132 bps	-240 bps	22.0%	24.8%	-287 bps
Depreciation	981	1,016	955	-3.4%	2.7%	3,039	2,844	6.9%
EBIT	9,126	7,340	8,525	24.3%	7.1%	24,669	24,414	1.0%
EBIT Margin (%)	19.9%	18.2%	22.0%	169 bps	-208 bps	19.6%	22.3%	-269 bps
Interest Expense	370	370	519	0.0%	-28.7%	1,095	1,576	-30.5%
Other Income	306	194	337	58.2%	-9.0%	715	928	-23.0%
PBT	9,062	7,164	8,342	26.5%	8.6%	24,288	23,766	2.2%
Exceptional Item	0	160	0	-100.0%	NA	160	0	NA
Tax	2,379	1,850	2,169	28.6%	9.7%	6,344	6,184	2.6%
PAT	6,683	5,153	6,174	29.7%	8.3%	17,784	17,582	1.1%
PAT Margin (%)	14.6%	12.8%	15.9%	179 bps	-134 bps	14.1%	16.0%	-192 bps
EPS	69.3	53.4	64.0	29.7%	8.3%	184.45	182.36	1.1%

Source: Company, KRChoksey Research

Nestle India Ltd.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	CY20	CY21	CY22E	CY23E	CY24E
Revenues	1,33,500	1,47,094	1,70,456	1,89,252	2,08,209
COGS	56,739	63,189	78,431	83,713	89,827
Gross profit	76,761	83,905	92,024	1,05,539	1,18,382
Employee cost	15,010	15,213	16,445	18,237	20,105
Other expenses	29,737	32,777	37,471	41,636	45,806
EBITDA	32,015	35,915	38,108	45,667	52,472
EBITDA Margin	24.0%	24.4%	22.4%	24.1%	25.2%
Depreciation & amortization	3,704	3,902	4,215	4,743	5,271
EBIT	28,311	32,014	33,894	40,925	47,201
Other income	1,459	1,201	981	1,136	1,249
Interest expense	1,642	2,012	1,462	2,127	2,127
Exceptional items	0	2,365	16	0	0
PBT	28,128	28,838	33,396	39,934	46,324
Tax	7,304	7,389	8,625	10,223	11,859
PAT	20,824	21,449	24,771	29,711	34,465
Adj. PAT	20,824	23,814	24,787	29,711	34,465
EPS (INR)	216.0	222.5	256.9	308.2	357.5
Adj. EPS	216.0	247.0	257.1	308.2	357.5

Source: Company, KRChoksey Research

Exhibit 3: Cash Flow Analysis

Particulars (INR Mn)	CY20	CY21	CY22E	CY23E	CY24E
Net Cash Generated From Operations	24,545	22,714	34,498	39,390	44,573
Net Cash Flow from/(used in) Investing Activities	(3,215)	(19,570)	(7,799)	(7,286)	(7,188)
Net Cash Flow from Financing Activities	(19,559)	(20,186)	(21,709)	(26,412)	(30,297)
Net Inc/Dec in cash equivalents	1,771	(17,043)	4,990	5,692	7,088
Opening Balance	12,932	17,548	7,185	12,091	17,783
Adjustments	2,845	6,680	(84)	0	0
Closing Balance Cash and Cash Equivalents	17,548	7,185	12,091	17,783	24,871

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	CY20	CY21	CY22E	CY23E	CY24E
EBITDA Margin (%)	24.0%	24.4%	22.4%	24.1%	25.2%
Tax rate (%)	26.0%	25.6%	25.8%	25.6%	25.6%
Net Profit Margin (%)	15.6%	14.6%	14.5%	15.7%	16.6%
RoE (%)	103.1%	102.9%	97.6%	96.5%	92.9%
RoCE (%)	137.8%	151.1%	131.8%	131.4%	126.1%
EPS (INR)	216.0	222.5	256.9	308.2	357.5
PE	91.7X	80.2X	77.0X	64.3X	55.4X

Source: Company, KRChoksey Research

Nestle India Ltd.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	CY20	CY21	CY22E	CY23E	CY24E
Non-current assets					
Property, plant and equipment	19,680	26,529	28,915	30,772	32,102
Capital work-in-progress	6,386	2,462	2,462	2,462	2,462
Right of use assets	2,114	3,410	3,410	3,410	3,410
Financial assets					
Investments	7,408	7,107	7,107	7,107	7,107
Loans	466	491	491	491	491
Deferred tax assets	199	258	258	258	258
Other non-current assets	894	14,453	16,749	18,596	20,459
Total non-current assets	37,147	54,712	59,393	63,097	66,289
Current assets					
Inventories	14,165	15,802	19,614	20,935	22,464
Financial assets					
Investments	7,229	633	633	633	633
Trade receivables	1,649	1,653	2,335	2,074	2,282
Cash and cash equivalents	17,548	7,185	12,091	17,783	24,871
Other Balances with Banks	151	169	169	169	169
Loans	132	119	119	119	119
Other financial assets	590	494	572	636	699
Other current assets	387	1,333	1,515	1,661	1,809
Total current assets	41,851	27,388	37,048	44,009	53,045
TOTAL ASSETS	78,997	82,099	96,441	1,07,106	1,19,334
EQUITY AND LIABILITIES					
Equity					
Equity share capital	964	964	964	964	964
Other equity	19,229	19,881	24,404	29,830	36,124
Total equity	20,193	20,845	25,368	30,794	37,088
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Borrowings	317	275	275	275	275
Lease Liabilities	658	1,902	1,902	1,902	1,902
Provisions	32,683	32,845	38,062	42,259	46,492
Other non-current liabilities	221	200	231	257	283
Total non-current liabilities	33,878	35,222	40,470	44,693	48,952
Current liabilities					
Financial liabilities					
Borrowings	31	66	66	66	66
Trade payables	15,166	17,349	21,918	22,935	24,610
Lease liabilities	469	415	415	415	415
Other financial liabilities	6,612	5,134	5,134	5,134	5,134
Other current liabilities	1,588	1,683	1,683	1,683	1,683
Provisions	1,060	1,385	1,385	1,385	1,385
Total current liabilities	24,926	26,032	30,602	31,619	33,294
Total liabilities	58,804	61,255	71,072	76,312	82,246
TOTAL EQUITY AND LIABILITIES	78,997	82,099	96,441	1,07,106	1,19,334

Source: Company, KRChoksey Research

Nestle India Ltd.

Nestle India Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
20-Oct-22	19,800	21,805	ACCUMULATE	Buy	More than 15%
01-Aug-22	19,359	21,334	ACCUMULATE		
22-Apr-22	18,188	19,472	ACCUMULATE	Accumulate	5% – 15%
21-Feb-22	18,009	19,982	ACCUMULATE		
22-Oct-21	19,007	21,150	ACCUMULATE	Hold	0 – 5%
02-Aug-21	17,715	19,640	ACCUMULATE		
30-Jun-21	17,599	19,640	ACCUMULATE	Reduce	-5% – 0
22-Apr-21	16,790	19,640	BUY		
17-Mar-21	16,742	19,640	BUY	Sell	Less than – 5%
15-Dec-20	18,401	19,640	ACCUMULATE		

ANALYST CERTIFICATION:

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KR Choksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5413

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Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

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