

HSIE Results Daily

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Results Reviews

- **Nestle India:** Nestle reported a miss on revenue while the margin was ahead of expectations. Domestic revenue was up by 14/15% YoY in 4Q/CY22, delivering a three-year CAGR of 11%. However, Nestle witnessed ~2% YoY volume contraction in 4Q due to sustained inflation impacting demand in the semi-urban market (mainly LUPs). Volume deceleration was sharp as the company posted 8% volume growth in 9MCY22. Most packaged food companies delivered similar price-led healthy revenue growth with weak volumes. GM improved by 200bps QoQ but continued to contract by 200bps YoY to 55% (59% two years back). Cost control protected the EBITDA margin, which was up 20bps YoY to 23.4%, after contracting for the last five quarters. EBITDA grew by 14.5/6% YoY in 4Q/CY22. Nestle continued to focus on distribution strengthening, category expansion and capacity building (capex of INR 50bn planned for the next three years). We value Nestle at 52x P/E on Dec-24E EPS to derive a TP of INR 18,500. With a rich valuation, the absolute upside is limited in the medium term. Maintain REDUCE.

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Nestle India

Weak volume; cost control supports margin

Nestle reported a miss on revenue while the margin was ahead of expectations. Domestic revenue was up by 14/15% YoY in 4Q/CY22, delivering a three-year CAGR of 11%. However, Nestle witnessed ~2% YoY volume contraction in 4Q due to sustained inflation impacting demand in the semi-urban market (mainly LUPs). Volume deceleration was sharp as the company posted 8% volume growth in 9MCY22. Most packaged food companies delivered similar price-led healthy revenue growth with weak volumes. GM improved by 200bps QoQ but continued to contract by 200bps YoY to 55% (59% two years back). Cost control protected the EBITDA margin, which was up 20bps YoY to 23.4%, after contracting for the last five quarters. EBITDA grew by 14.5/6% YoY in 4Q/CY22. Nestle continued to focus on distribution strengthening, category expansion and capacity building (capex of INR 50bn planned for the next three years). We value Nestle at 52x P/E on Dec-24E EPS to derive a TP of INR 18,500. With a rich valuation, the absolute upside is limited in the medium term. Maintain **REDUCE**.

- Weak volume, price-led revenue growth:** Revenue grew by 14% YoY (+9% in Q4CY21 and +18% in Q3CY22, HSIE 17.7%). The e-commerce channel continued to perform well, contributing 6.5% of sales in CY22 (1% in CY18). Domestic revenue grew in Q4/CY22 by 14/15%, with volume growing -2/5%. During CY22, milk products and nutrition (40% of the mix) registered 9.5% growth, prepared dishes and cooking aids (32% of the mix) was up 15.6%, confectionary (16% mix) was up 25% and powdered & liquid beverages (11% mix) was up 19.2%. Nestle continued to focus on volume growth; we model 11% revenue CAGR for CY22-24 (11% achieved in CY16-22).
- GM remains under pressure:** With elevated commodity inflation, GM dipped by 200bps YoY but was up 200bps QoQ to 55%. Persistent commodity inflation has impacted Nestle's gross margin over the last two years; GM was at 58% in CY20. Employee/other expenses were up by 5/6% YoY. EBITDA margin was slightly up by 20bps YoY to 23.4%. EBITDA was up by 14.5% YoY (HSIE 10% YoY). Although RM inflation is still at an elevated level, particularly in the food basket, the non-food basket has eased out. We model gradual EBITDA margin improvement to 24/25% in CY23/CY24.
- Analyst meet takeaways:** (1) Nestle's 'rurban' strategy is to increase the rural reach, strengthen distribution and build infrastructure. (2) Mega city and semi-urban market is seeing growth deceleration in Q4. (3) Confectionary continued to perform well, aided by media campaigns, festive executions, consumer promotions, and focused distribution. (4) In beverages, the company saw growth in Nescafe Classic, Sunrise, and vending mixes. (5) Millet is the focus area for innovation this year. (6) Total distribution reach is at 5.1mn (4mn in 2016), of which direct reach is 1.5mn (1.3mn in 2016). (7) RM inflation was at 18.5% in CY22 vs. 3% CAGR in 2018-2020. (8) Capex will be INR 50bn for the next three years (CY23/CY24/CY25 - INR 13/20/17bn).

Quarterly/annual financial summary

YE Dec (INR mn)	Q4CY22	Q4CY21	YoY (%)	Q3CY22	QoQ (%)	CY21	CY22P	CY23E	CY24E
Net Revenue	42,568	37,480	13.6	46,018	(7.5)	1,47,094	1,68,758	1,86,803	2,07,404
EBITDA	9,946	8,683	14.5	10,256	(3.0)	36,210	38,232	44,844	51,619
APAT	6,281	5,697	10.2	6,615	(5.0)	23,286	24,331	29,401	33,487
EPS (Rs)	65.1	59.1	10.2	68.6	(5.0)	241.5	252.3	304.9	347.3
P/E (x)						81.3	77.8	64.4	56.5
EV/EBITDA (x)						51.9	49.1	41.8	36.5
Core RoCE (%)						61.5	52.5	57.1	52.5

Source: Company, HSIE Research

REDUCE

CMP (as on 16 Feb 2023)	INR 19,629
Target Price	INR 18,500
NIFTY	18,036

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 18,500	INR 18,500
EPS %	CY23E	CY24E
	-1%	0%

KEY STOCK DATA

Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (INR bn) / (\$ mn)	1,893/22,883
6m avg traded value (INR mn)	1,123
52 Week high / low	INR 21,053/16,000

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(2.3)	(0.3)	7.7
Relative (%)	(1.3)	(2.7)	2.0

SHAREHOLDING PATTERN (%)

	Sep-22	Dec-22
Promoters	62.76	62.76
FIs & Local MFs	8.87	9.06
FPIs	12.05	12.12
Public & Others	16.32	16.06
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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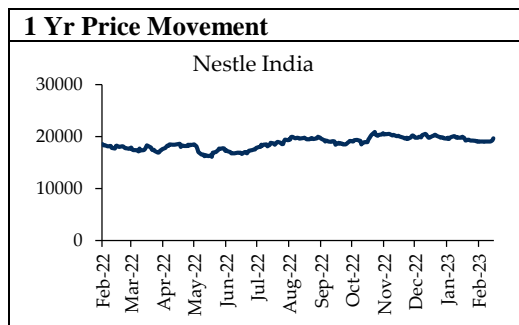
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Rating Criteria

BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Varun Lohchab	Nestle India	PGDM	NO
Naveen Trivedi	Nestle India	MBA	NO
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Disclosure:

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