

Nestle India Ltd



Nestle India Ltd.

Tonnage under pressure during the quarter, but EBITDA margin improves further

CMP INR 19,002	Target INR 21,805	Potential Upside 14.8%	Market Cap (INR Mn) INR 18,32,091	Recommendation ACCUMULATE	Sector FMCG
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Result highlights

- For Q4CY22, NEST's revenue was INR 42,568 mn (+13.6% YoY/ -7.5% QoQ). For CY22, revenue grew by 14.6% YoY to INR 1,68,970 mn. The growth was broad based across categories.
- EBITDA for the quarter was INR 9,864 mn (+14.9% YoY/ -1.8% QoQ). EBITDA margin improved by 26 bps YoY/ 135 bps QoQ to 23.2%. For CY22, EBITDA grew by 4.9% YoY to INR 37,420 mn while EBITDA margin contracted by 206 bps YoY.
- PAT for Q4CY22 was INR 6,281 mn (+65.5% YoY/ -5.0% QoQ). Adj. PAT for the quarter was INR 6,415 mn (+4.1% YoY/ -3.0% QoQ). For CY22, PAT grew by 12.8% YoY to INR 23,905 mn while Adj. PAT grew by 2.7% YoY to INR 24,200 mn.

MARKET DATA

Shares O/S (Mn)	96
Mkt Cap (INR Mn)	18,32,091
52 Wk H/L (INR)	21,050/16,000
Volume Avg (3m K)	55
Face Value (INR)	10
Bloomberg Code	NEST IN

KEY FINANCIALS

Particulars (INR Mn)	CY20	CY21	CY22	CY23E	CY24E
Revenue	1,33,500	1,47,406	1,68,970	1,88,467	2,07,314
EBITDA	32,015	35,676	37,420	45,677	52,267
PAT	20,824	21,184	23,905	30,114	34,060
Adj PAT	20,824	23,561	24,200	30,114	34,060
EPS (INR)	216.0	219.7	247.9	312.3	353.2
Adj. EPS (INR)	216.0	244.4	251.0	312.3	353.2
EBITDA Margin (%)	24.0%	24.2%	22.1%	24.2%	25.2%
NPM (%)	15.6%	14.4%	14.1%	16.0%	16.4%

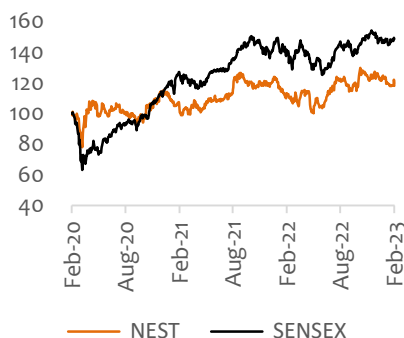
Source: Company, KRChoksey Research

Revenue growth slows down in Q4CY22 vs. the previous 2 quarters, but remains in the double digits: For Q4CY22, NEST's revenue was INR 42,568 mn (+13.6% YoY/ -7.5% QoQ). The YoY revenue growth rate slowed down vs. 16.1%/ 18.5% YoY in Q2CY22/ Q3CY22, respectively. The tonnage in domestic segment declined by 0.8% YoY in the quarter vs. a growth of 7.8%/ 7.0%/ 8.8% YoY in Q1CY22/ Q2CY22/ Q3CY22, respectively. Domestic sales grew by 13.8% YoY (-7.1% QoQ) while export sales grew by 17.1% YoY (-16.6% QoQ). In Q4CY22, growth rates slowed down in megacities and Town class 2-6 due to price hikes in some smaller packs, especially noodles. Metros, Town class 1, and villages have seen an acceleration in growth. The demand trends are secular across town classes and growth in Town class 2-6 and megacities should bounce back.

CY22 sees NEST's highest double-digit domestic growth in a decade: For CY22, revenue grew by 14.6% YoY to INR 1,68,970 mn. Domestic tonnage growth was 5.4% YoY. For CY22, domestic sales growth was at 14.8% YoY (which is highest since 20.2% growth was reported in CY11) while exports growth was 8.2% YoY. Domestic sales growth for the full year was 9.5% YoY for Milk Products and Nutrition, 15.6% YoY for Prepared dishes and cooking aids, 25.0% YoY for Confectionary, and 19.2% YoY for Powdered and liquid beverages.

EBITDA margins continue to improve sequentially for the 2nd consecutive quarter: NEST's gross margin saw an improvement of 218 bps QoQ but was lower by 206 bps YoY. For CY22, gross margin saw a contraction of 280 bps YoY. Several commodities such as cereals, grains, and green coffee continued to be near their 10-year high prices. EBITDA for the quarter was INR 9,864 mn (+14.9% YoY/ -1.8% QoQ). EBITDA margin improved by 26 bps YoY/ 135 bps QoQ. For CY22, EBITDA grew by 4.9% YoY to INR 37,420 mn while EBITDA margin contracted by 206 bps YoY. The EBITDA margin bottomed out in Q2CY22 and has seen consistent improvement in Q3CY22 and Q4CY22. Inflation in CY22 was 6x at 18.5% vs. 3.0% CAGR inflation seen during CY18 to CY20. The commodity cost pressure has been to the tune of 800 bps YoY in CY22. NEST has navigated the commodity pressure by factors like economies of scale, strong partnerships, global bandwidth and sharp procurement strategies. Nestle's SHARK program has yielded about 150 to 160 bps cost savings in CY22. Insight-based pricing across categories also helped to mitigate the sharp commodity pressure. While lower unit packs (LUPs) have seen lower volumes due to price hikes, the premium portfolio has seen better growth leading to better product mix for margins.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	61,003
NIFTY	17,944

SHARE HOLDING PATTERN (%)

Particulars	Dec-22	Sep-22	Jun-22
Promoters	62.8	62.8	62.8
FIIs	12.1	11.7	11.7
DIIIs	9.1	9.2	9.1
Others	16.1	16.3	16.5
Total	100.0	100.0	100.0

10.8%

Revenue CAGR between CY22 and CY24E

18.6%

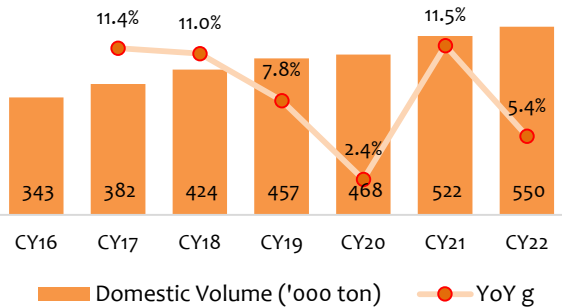
Adj. PAT CAGR between CY22 and CY24E

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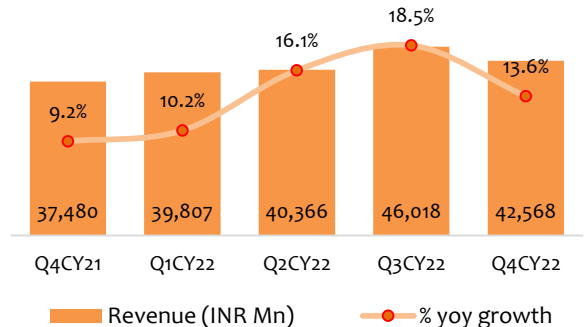
Conference call highlights: (1) CY22 saw sustained domestic tonnage growth of 5.4% vs. a CAGR of 8.2% between CY16 to CY22. (2) Revenue growth of 15.6% YoY in Prepared dishes and cooking aids was despite significant price hikes in small packs. (3) NEST's confectionary revenue growth was 25.0% YoY vs. an estimated market growth of 10.0% to 12.0%. NEST gained market share in overall chocolates and wafers portfolio. (4) Nestle professional business was higher by 20% in CY22 vs. pre covid sales and is going from strength to strength. (5) NEST has taken a price hike of ~40.0% in the lower unit pack (LUP) of Maggi while it has managed to maintain prices in other parts of the portfolio. This has impacted volumes for noodles, while all other categories have seen volume growth. (6) NEST has launched 110 new products in the last 7 years but in the last 2 years, the focus has been on the core 12 to 15 brands. (7) New products contributed 5.4% to sales in CY22 from 4.9% in CY21 and 1.5% in CY16. The new product pipeline is full and has ~30 new projects, however, NEST will have a calibrated approach toward launches depending on its capacity to secure the core. (8) In line with CY23 being the UN year of millets, NEST will launch millet products under 3 brands- Ceregrow, A+, and Maggi. (9) Media spends declined in CY22. NEST focused on creating brand equity vs the previous approach of promotions. (10) Project SHARK has been seeking organizational efficiency since CY11 and will continue to be one of the levers of cost reduction. (11) For NEST, e-commerce has grown more than 10x in the last 10 years and by 41.0% YoY in CY22. E-com is an important vector for growth but not by sacrificing other channels. NEST seeks a balanced channel strategy for growth. (12) NEST has continued its strategy to penetrate deeper into rural India and RURBAN journey is an area of increased opportunity. As of CY22, NEST has a reach of 91k+ villages with 2,000+ population with an ambition to reach 120k such villages till CY24E. Total village coverage has jumped to ~165k in CY22 from ~69k in CY20. Double-digit RURBAN growth has sustained in last 5 years, including CY22 which has albeit seen some lowering of the growth rate. (13) The royalty agreement with Nestle SA is scheduled for renewal in CY24 and the logic behind the royalty has not changed. (14) NEST will have an accelerated capex plan over the next 3 years to the tune of INR 50 bn, excluding any mergers/ acquisitions. Compared to ~INR 5 bn in CY22, CY23E/ CY24E will have capex spends of INR 13 bn and INR 20, respectively with the balance in CY25E. Of the forthcoming capex plans, noodles will be the first focus while confectionary is the 2nd focus area.

Valuation and view: NEST has continued to see broad based growth across categories and town classes. While Q4CY22 has seen some reduction in the revenue growth rates in some town classes, it has continued to be positive in all the regions and is expected to bounce back. NEST has seen a sequential improvement in EBITDA margin for the last 2 quarters, despite pressure on tonnage in Q4CY22. NEST is seeing the benefit of premiumization which is helping the margins in a time when the smaller units are seeing volume pressure. NEST's internal cost rationalization programs are helping the company to mitigate the unprecedented inflationary pressures. We like NEST for its focus on penetration-led growth led by increasing distribution, especially in RURBAN. We continue to like the focus on premiumization, cost rationalization and expect these factors to aid margins going ahead. We expect Revenue/ EBITDA/ Adj. PAT to grow at a CAGR of 10.8%/ 18.2%/ 18.6%, respectively over CY22-CY24E. **We apply P/E of 61.7x on CY24E EPS of INR 353.2 (INR 357.5 earlier) and arrive at a target price of INR 21,805 per share (unchanged) with an upside potential of 14.8% from the CMP. Accordingly, we maintain our "ACCUMULATE" recommendation on the shares of Nestle India.**

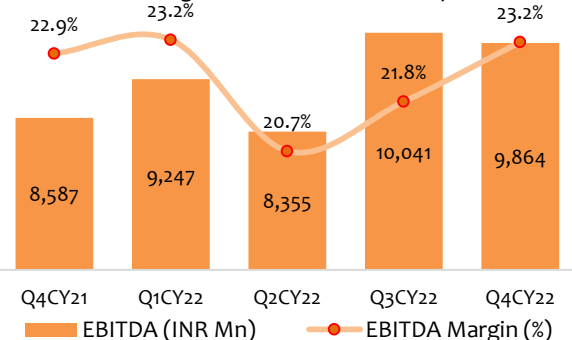
Domestic volume growth continues to be positive in a difficult year



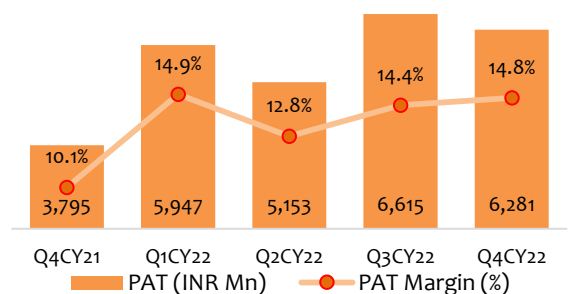
Revenue growth slows down in Q4CY22 due to pricing actions in smaller packs



EBITDA margins see traction in last 2 quarters



PAT margin improves QoQ



Source: Company, KRChoksey Research

Nestle India Ltd.

Q4CY22 Result

Particulars (INR Mn)	Q4CY22A	Q3CY22A	Q4CY21A	Q-o-Q	Y-o-Y	CY22	CY21	Y-o-Y
Sales	42,568	46,018	37,480	-7.5%	13.6%	1,68,970	1,47,406	14.6%
Total Expenditure	32,704	35,978	28,893	-9.1%	13.2%	1,31,550	1,11,730	17.7%
Cost of Raw Materials	20,060	19,528	16,629	2.7%	20.6%	76,521	61,541	24.3%
Purchase of Stock	950	798	680	19.0%	39.7%	3,480	2,617	33.0%
Changes in Inventories	-1,795	1,452	-1,163	-223.6%	54.3%	-2,503	-676	270.3%
Employee Cost	4,070	4,200	3,889	-3.1%	4.6%	16,355	15,299	6.9%
Other Expenses	9,419	10,000	8,858	-5.8%	6.3%	37,697	32,949	14.4%
EBITDA	9,864	10,041	8,587	-1.8%	14.9%	37,420	35,676	4.9%
EBITDA Margin (%)	23.2%	21.8%	22.9%	135 bps	26 bps	22.1%	24.2%	-206 bps
Depreciation	987	982	1,060	0.5%	-6.9%	4,030	3,910	3.1%
EBIT	8,878	9,059	7,527	-2.0%	17.9%	33,390	31,766	5.1%
EBIT Margin (%)	20.9%	19.7%	20.1%	117 bps	77 bps	19.8%	21.5%	-179 bps
Interest Expense	448	372	436	20.5%	2.8%	1546	2017	-23.4%
Other Income	296	306	274	-3.6%	8.0%	1010	1202	-15.9%
PBT	8,725	8,994	7,365	-3.0%	18.5%	32,854	30,950	6.2%
Exceptional Item	134	0	2,365	NA	-94.3%	294	2,377	-87.6%
Tax	2,310	2,379	1,205	-2.9%	91.7%	8,655	7,389	17.1%
PAT	6,281	6,615	3,795	-5.0%	65.5%	23,905	21,184	12.8%
PAT Margin (%)	14.8%	14.4%	10.1%	38 bps	463 bps	14.1%	14.4%	-22 bps
EPS	65.1	68.6	39.4	-5.1%	65.5%	250.7	222.5	12.7%
Adj. PAT	6,415	6,615	6,160	-3.0%	4.1%	24,200	23,561	2.7%
Adj. PAT Margin	15.1%	14.4%	16.4%	70 bps	-137 bps	14.3%	16.0%	-166 bps
Adj. EPS	66.5	68.6	63.9	-3.0%	4.1%	251.0	244.4	2.7%

Source: Company, KRChoksey Research

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

Particulars (INR Mn)	CY20	CY21	CY22	CY23E	CY24E
Revenues	1,33,500	1,47,406	1,68,970	1,88,467	2,07,314
COGS	56,739	63,482	77,499	83,729	90,325
Gross profit	76,761	83,924	91,471	1,04,738	1,16,988
Employee cost	15,010	15,299	16,355	17,598	19,112
Other expenses	29,737	32,949	37,697	41,463	45,609
EBITDA	32,015	35,676	37,420	45,677	52,267
EBITDA Margin	24.0%	24.2%	22.1%	24.2%	25.2%
Depreciation & amortization	3,704	3,910	4,030	4,455	5,855
EBIT	28,311	31,766	33,390	41,223	46,412
Other income	1,459	1,202	1,010	1,131	1,244
Interest expense	1,642	2,017	1,546	1,877	1,877
Exceptional items	0	2,377	294	0	0
PBT	28,128	28,573	32,560	40,476	45,779
Tax	7,304	7,389	8,655	10,362	11,719
PAT	20,824	21,184	23,905	30,114	34,060
Adj. PAT	20,824	23,561	24,200	30,114	34,060
EPS (INR)	216.0	219.7	247.9	312.3	353.2
Adj. EPS	216.0	244.4	251.0	312.3	353.2

Source: Company, KRChoksey Research

Nestle India Ltd.

KEY FINANCIALS

Exhibit 1: Balance Sheet

Particulars (INR Mn)	CY20	CY21	CY22	CY23E	CY24E
Non-current assets					
Property, plant and equipment	19,680	26,530	27,058	35,603	49,748
Capital work-in-progress	6,386	2,462	3,584	3,584	3,584
Right of use assets	2,114	3,417	3,379	3,379	3,379
Financial assets					
Investments	7,408	7,107	5,602	5,602	5,602
Loans	466	492	558	558	558
Deferred tax assets	199	258	256	256	256
Other non-current assets	894	14,453	14,449	16,116	17,728
Total non-current assets	37,147	54,720	54,886	65,098	80,855
Current assets					
Inventories	14,165	15,927	19,288	20,838	22,480
Financial assets					
Investments	7,229	633	2,174	2,174	2,174
Trade receivables	1,649	1,660	1,919	2,065	2,272
Cash and cash equivalents	17,548	7,185	9,266	8,425	2,654
Other Balances with Banks	151	169	190	190	190
Loans	132	107	103	103	103
Other financial assets	590	508	583	650	715
Other current assets	387	1,434	1,381	1,540	1,694
Total current assets	41,851	27,622	34,902	35,985	32,281
TOTAL ASSETS	78,997	82,341	89,787	1,01,083	1,13,136
EQUITY AND LIABILITIES					
Equity					
Equity share capital	964	964	964	964	964
Other equity	19,229	18,500	23,628	29,650	36,462
Total equity	20,193	19,464	24,592	30,615	37,426
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Borrowings	317	275	267	267	267
Lease Liabilities	658	1,903	1,907	1,907	1,907
Provisions	32,683	32,853	32,052	35,750	39,325
Other non-current liabilities	221	200	174	194	213
Total non-current liabilities	33,878	35,230	34,398	38,117	41,711
Current liabilities					
Financial liabilities					
Borrowings	31	66	34	34	34
Trade payables	15,166	17,482	19,338	20,893	22,539
Lease liabilities	469	421	498	498	498
Other financial liabilities	6,612	6,588	6,680	6,680	6,680
Other current liabilities	1,588	1,703	2,640	2,640	2,640
Provisions	1,060	1,388	1,607	1,607	1,607
Total current liabilities	24,926	27,647	30,798	32,352	33,998
Total liabilities	58,804	62,878	65,196	70,469	75,709
TOTAL EQUITY AND LIABILITIES	78,997	82,341	89,787	1,01,083	1,13,136

Source: Company, KRChoksey Research

Nestle India Ltd.

Exhibit 3: Cash Flow Analysis

Particulars (INR Mn)	CY20	CY21	CY22	CY23E	CY24E
Net Cash Generated From Operations	24,545	22,360	27,374	38,645	43,701
Net Cash Flow from/(used in) Investing Activities	(3,215)	(19,203)	(3,917)	(13,516)	(20,348)
Net Cash Flow from Financing Activities	(19,559)	(20,200)	(21,227)	(25,969)	(29,125)
Net Inc/Dec in cash equivalents	1,771	(17,043)	2,230	(840)	(5,772)
Opening Balance	12,932	17,548	7,185	9,266	8,425
Adjustments	2,845	6,680	(149)	0	0
Closing Balance Cash and Cash Equivalents	17,548	7,185	9,266	8,425	2,654

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

Key Ratio	CY20	CY21	CY22	CY23E	CY24E
EBITDA Margin (%)	24.0%	24.2%	22.1%	24.2%	25.2%
Tax rate (%)	26.0%	25.9%	26.6%	25.6%	25.6%
Net Profit Margin (%)	15.6%	14.4%	14.1%	16.0%	16.4%
RoE (%)	103.1%	108.8%	97.2%	98.4%	91.0%
RoCE (%)	137.8%	160.4%	134.1%	133.3%	123.0%
EPS (INR)	216.0	219.7	247.9	312.3	353.2
PE	88.0x	77.8x	75.7x	60.8x	53.8x

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-Feb-23	19,002	21,805	ACCUMULATE	Buy	More than 15%
20-Oct-22	19,800	21,805	ACCUMULATE		
01-Aug-22	19,359	21,334	ACCUMULATE	Accumulate	5% – 15%
22-Apr-22	18,188	19,472	ACCUMULATE		
21-Feb-22	18,009	19,982	ACCUMULATE	Hold	0 – 5%
22-Oct-21	19,007	21,150	ACCUMULATE		
02-Aug-21	17,715	19,640	ACCUMULATE	Reduce	-5% – 0
30-Jun-21	17,599	19,640	ACCUMULATE		
22-Apr-21	16,790	19,640	BUY	Sell	Less than – 5%
17-Mar-21	16,742	19,640	BUY		

ANALYST CERTIFICATION:

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