

Nestle India

Growth trends sustain

Nestle's 1QCY23 earnings surprised positively, led by strong revenue performance. However, the margin saw a marginal miss. Domestic revenue grew 21% YoY while exports grew by 25%. The growth was led by a healthy balance of pricing, volume and mix (around mid-single-digit volume growth). Rurban growth was complemented by strong momentum in metro and megacities. GM contracted by 150bps YoY to 53.8% (59% two years back). Although wheat, edible oil and packaging material saw some softening, the cost of fresh milk, fuel, and green coffee remained firm. Cost control protected the EBITDA margin, which was down 20bps YoY to 23.3%. EBITDA grew by 19.8% YoY (HSIE 14%). Nestle continues to focus on distribution strengthening, category expansion and capacity building. We remain positive on OOH products and sustain growth for in-home products. We maintain our EPS estimates. We value Nestle at 52x P/E on Mar-25E EPS to derive a TP of INR 18,500. With a rich valuation, the absolute upside is limited in the medium term. **Maintain REDUCE.**

- Broad-based revenue growth; beats estimates:** Revenue grew by 21% YoY (+10% in Q1CY22 and +13% in Q4CY22, HSIE: 13.1%). Domestic revenue grew by 21% YoY (HSIE: 13%) while export revenue grew by 25% (HSIE: 15%). Revenue growth was broad-based across categories with a healthy balance of pricing, volume and mix. All product groups delivered double-digit growth for the fourth consecutive quarter. All the channels sustained strong momentum. Strong e-com growth was led by significant growth in quick commerce while organised trade saw broad-based growth led by rapid outlet expansion. OOH saw a strong performance. Strong Rurban growth was complemented by momentum in metro and megacities.
- GM remains under pressure:** With prices of key commodities remaining elevated, GM dipped by 150bps YoY (-110bps QoQ) to 53.8%. 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 14/17% YoY. EBITDA marginally contracted by 20bps to 23.3% (HSIE: 23.9%). EBITDA was up by 19.8% YoY (HSIE 14% YoY). Although there are early signs of softening in prices of edible oils, wheat and packaging materials, the cost of fresh milk, fuels and green coffee is expected to remain elevated.
- Press release takeaways:** (1) Prepared dishes and cooking aids growth was led by media and distribution network. (2) Milk products and nutrition saw strong double-digit growth, led by MILKMAID. (3) Strong growth in confectionary was led by KITKAT and MUNCH and it was well supported by focused trade plans and consumer engagement. (4) In beverages, the company saw market share gains in NESCAFÉ CLASSIC and SUNRISE GOLD. (5) The company launched ThickenUp Clear, which can be used to help patients with swallowing difficulties.

Quarterly/annual financial summary

YE Dec (INR mn)	Q1CY23	Q1CY22	YoY (%)	Q4CY22	QoQ (%)	CY21	CY22	CY23E	CY24E
Net Revenue	48,305	39,926	21.0	42,568	13.5	1,47,406	1,68,970	1,92,259	2,12,983
EBITDA	11,242	9,382	19.8	9,946	13.0	35,960	38,146	45,444	51,902
APAT	7,366	5,908	24.7	6,281	17.3	22,761	24,241	30,072	33,870
EPS (Rs)	76.4	61.3	24.7	65.1	17.3	236.1	251.4	311.9	351.3
P/E (x)						87.6	82.2	66.3	58.8
EV/EBITDA (x)						55.0	51.8	43.5	38.2
Core RoCE (%)						60.8	52.0	57.3	52.4

Source: Company, HSIE Research

REDUCE

CMP (as on 25 Apr 2023)	INR 20,665
Target Price	INR 18,500
NIFTY	17,769

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 18,500	INR 18,500
EPS %	CY23E	CY24E
	+2%	+1%

KEY STOCK DATA

Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (INR bn) / (\$ mn)	1,992/24,357
6m avg traded value (INR mn)	1,171
52 Week high / low	INR 21,053/16,000

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	7.4	1.9	13.7
Relative (%)	7.6	0.9	7.4

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	62.76	62.76
FIs & Local MFs	9.06	9.19
FPIs	12.12	12.06
Public & Others	16.06	15.99
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

Varun Lohchab

varun.lohchab@hdfcsec.com
+91-22-6171-7334

Naveen Trivedi

naveen.trivedi@hdfcsec.com
+91-22-6171-7324

Paarth Gala

paarth.gala@hdfcsec.com
+91-22-6171-7336

Riddhi Shah

riddhi.shah@hdfcsec.com
+91-22-6171-7359

Disclosure:

Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does not have any material conflict of interest.

Any holding in stock – No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor; readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.

This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security.

This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL please refer the website.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE, BSE, MSEI, MCX: INZ000186937; AMFI Reg. No. ARN: 13549; PFRDA Reg. No. POP: 11092018; IRDA Corporate Agent License No.: CA0062; SEBI Research Analyst Reg. No.: INH000002475; SEBI Investment Adviser Reg. No.: INA000011538; CIN - U67120MH2000PLC152193 Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com