

Nestle India Ltd.



Nestle India Ltd.

Revenue beat due to sharp sequential improvement

CMP INR 20,756	Target INR 23,000	Potential Upside 10.8%	Market Cap (INR Mn) INR 20,02,795	Recommendation ACCUMULATE	Sector FMCG
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Result highlights

- For Q1CY23, NEST's revenue was INR 48,305 mn (+21.0% YoY/ +13.5% QoQ), its highest quarterly growth in the last decade (excluding an exceptional quarter in 2016). The sales growth in domestic markets was 21.2% YoY due to a healthy balance of pricing, volume and mix. Sales growth in export markets was 24.9% YoY.
- EBITDA was INR 11,068 mn (+20.2% YoY/ +12.2% QoQ). EBITDA margin contracted by 15 bps YoY/ 26 bps QoQ to 22.9%.
- Adj PAT grew by 26.6% YoY/ 16.6% QoQ to INR 7,479 mn.

MARKET DATA

Shares O/S (Mn)	96
Mkt Cap (INR Mn)	20,02,795
52 Wk H/L (INR)	22,729/ 18,597
Volume Avg (3m K)	65
Face Value (INR)	10
Bloomberg Code	NEST IN

Market data as of 26th April 2023, 9:30 am

KEY FINANCIALS

Particulars (INR Mn)	CY20	CY21	CY22	CY23E	CY24E
Revenue	1,33,500	1,47,406	1,68,970	1,97,158	2,16,895
EBITDA	32,015	35,676	37,420	46,493	53,560
PAT	20,824	21,184	23,905	30,991	35,199
Adj PAT	20,824	23,561	24,200	31,002	35,199
EPS (INR)	216.0	219.7	247.9	321.4	365.1
Adj. EPS (INR)	216.0	244.4	251.0	321.5	365.1
EBITDA Margin (%)	24.0%	24.2%	22.1%	23.6%	24.7%
Adj. NPM (%)	15.6%	16.0%	14.3%	15.7%	16.2%

Source: Company, KRChoksey Research

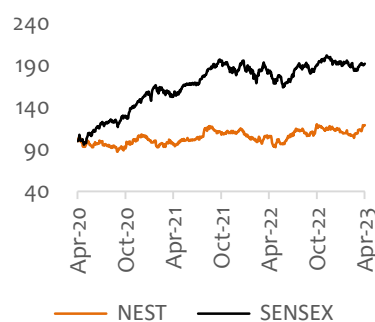
Broad-based double-digit growth leads to a positive surprise in topline growth: For Q1CY23, NEST's revenue was INR 48,305 mn (+21.0% YoY/ +13.5% QoQ), its highest quarterly growth in the last decade (excluding an exceptional quarter in 2016). The sales growth in domestic markets was 21.2% YoY due to a healthy balance of pricing, volume and mix. Sales growth in export markets was 24.9% YoY. The growth was broad-based across product categories, channels, and geographies. The double-digit growth in Milk products and Nutrition is noteworthy in the face of high inflation in milk. We believe the volume growth for the quarter would have likely been in mid-single digits YoY, which is a strong sequential improvement in growth rates, from a volume decline of 0.8% YoY seen in Q4CY22. All product groups have delivered double-digit growth in the last 4 quarters. The Out-of-home business also saw strong growth. The growth was strong across metros, megacities, and rural geographies. Rural growth was volume-led, as a result of the RURBAN strategy of increasing footprint.

Gross and EBITDA margins take a hit sequentially and YoY: EBITDA for the quarter was INR 11,068 mn (+20.2% YoY/ +12.2% QoQ). EBITDA margin contracted by 15 bps YoY/ 26 bps QoQ to 22.9%. Gross margins declined by 149 bps YoY/ 106 bps QoQ. Inflation in milk and coffee could have impacted margins. While the management has not commented on the QoQ product mix, we believe there could also be an impact of a sequential deterioration in the product mix due to some demand coming back in the Lower Unit Packs (LUP) after a sharp decline in Q4FY23. Lower employee and other costs as % of sales mitigated some pressure on the EBITDA margins. Adj PAT grew by 26.6% YoY/ 16.6% QoQ to INR 7,479 mn.

Outlook on commodity costs: NEST is witnessing early signs of softening in commodities like edible oils, wheat and packaging materials. On the other hand, the cost of fresh milk, fuels, and green coffee is expected to remain firm.

Other updates in the press release: NEST's Health Science arm launched ThickenUp Clear, a food and beverage thickener which can be used for patients with swallowing difficulties.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	60,170
NIFTY	17,736

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Dec-22	Sep-22
Promoters	62.8	62.8	62.8
FIIs	12.1	12.1	11.7
DIIIs	9.2	9.1	9.2
Others	16.0	16.1	16.3
Total	100.0	100.0	100.0

13.3%

Revenue CAGR between CY22 and CY24E

20.6%

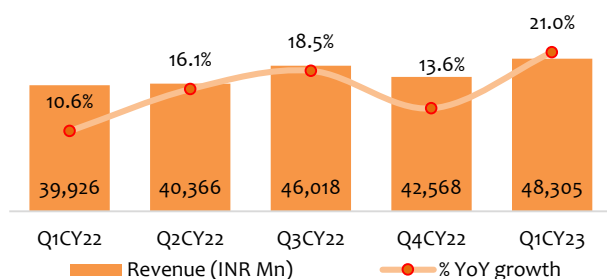
Adj. PAT CAGR between CY22 and CY24E

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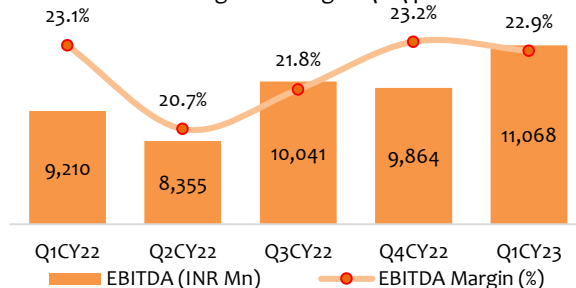
Valuation and view:

NEST's topline outperformance in Q1CY23 is encouraging when compared to the slowdown seen in Q4FY23, where its growth suffered due to the rise in prices of Lower Unit Packs. We like the broad-based nature of the growth in terms of product categories and across geographies including metros, megacities, and rural. NEST's RURBAN strategy is yielding rich results in increasing rural footprint and in turn leading to volume growth. NEST's focus on cost-cutting initiatives through the SHARK savings program also continues to yield results. We factor in the strong topline growth seen in the quarter and increase our CY23E/CY24E EPS by ~3% each. We expect Revenue/ EBITDA/ Adj. PAT to grow at a CAGR of 13.3%/ 19.6%/ 20.6%, respectively over CY22-CY24E. We apply P/E of 63.0x on CY24E EPS of INR 365.1 (INR 353.2 earlier) and arrive at a target price of INR 23,000 per share (INR 21,805 earlier) with an upside potential of 10.8% from the CMP. Accordingly, we maintain our "ACCUMULATE" recommendation on the shares of Nestle India.

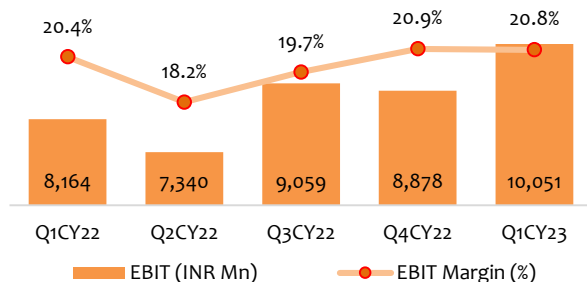
Revenue growth ramps up to highest in a decade



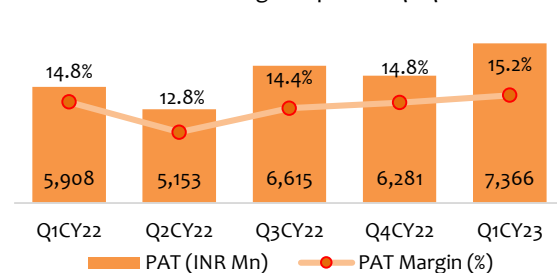
EBITDA margin sees slight QoQ pull back



Growth is seen in EBIT



PAT margin improves QoQ



Q1CY23 Result

Particulars (INR Mn)	Q1CY23A	Q4CY22A	Q1CY22A	Q-o-Q	Y-o-Y
Sales	48,305	42,568	39,926	13.5%	21.0%
Total Expenditure	37,238	32,704	30,717	13.9%	21.2%
Cost of Raw Materials	21,827	20,060	18,459	8.8%	18.2%
Purchase of Stock	1,000	950	833	5.3%	20.0%
Changes in Inventories	-511	-1,795	-1,442	-71.5%	-64.6%
Employee Cost	4,543	4,070	3,983	11.6%	14.0%
Other Expenses	10,380	9,419	8,883	10.2%	16.8%
EBITDA	11,068	9,864	9,210	12.2%	20.2%
EBITDA Margin (%)	22.9%	23.2%	23.1%	-26 bps	-15 bps
Depreciation	1,017	987	1,045	3.1%	-2.7%
EBIT	10,051	8,878	8,164	13.2%	23.1%
EBIT Margin (%)	20.8%	20.9%	20.4%	-5 bps	36 bps
Interest Expense	370	448	356	-17.4%	4.0%
Other Income	337	296	214	14.0%	57.1%
PBT	10,018	8,725	8,023	14.8%	24.9%
Exceptional Item	113	134	0	-15.8%	NA
Tax	2,538	2,310	2,115	9.9%	20.0%
PAT	7,366	6,281	5,908	17.3%	24.7%
PAT Margin (%)	15.2%	14.8%	14.8%	50 bps	45 bps
EPS	76.4	65.1	61.3	17.3%	24.7%
Adj. PAT	7,479	6,415	5,908	16.6%	26.6%
Adj. PAT Margin	15.5%	15.1%	14.8%	41 bps	69 bps
Adj. EPS	77.6	66.5	61.3	16.6%	26.6%

Source: Company, KRChoksey Research

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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	1,97,158	2,16,895
COGS	56,739	63,482	77,499	89,352	95,454
Gross profit	76,761	83,924	91,471	1,07,806	1,21,441
Employee cost	15,010	15,299	16,355	18,423	20,164
Other expenses	29,737	32,949	37,697	42,890	47,717
EBITDA	32,015	35,676	37,420	46,493	53,560
EBITDA Margin	24.0%	24.2%	22.1%	23.6%	24.7%
Depreciation & amortization	3,704	3,910	4,030	4,441	5,861
EBIT	28,311	31,766	33,390	42,052	47,699
Other income	1,459	1,202	1,010	1,230	1,301
Interest expense	1,642	2,017	1,546	1,637	1,689
Exceptional items	0	2,377	294	11	0
PBT	28,128	28,573	32,560	41,634	47,311
Tax	7,304	7,389	8,655	10,643	12,112
PAT	20,824	21,184	23,905	30,991	35,199
Adj. PAT	20,824	23,561	24,200	31,002	35,199
EPS (INR)	216.0	219.7	247.9	321.4	365.1
Adj. EPS	216.0	244.4	251.0	321.5	365.1

Exhibit 3: Cash Flow Analysis

Particulars (INR Mn)	CY20	CY21	CY22	CY23E	CY24E
Net Cash Generated From Operations	24,545	22,360	27,374	40,624	44,750
Net Cash Flow from/(used in) Investing Activities	(3,215)	(19,203)	(3,917)	(11,741)	(18,678)
Net Cash Flow from Financing Activities	(19,559)	(20,200)	(21,227)	(26,430)	(29,849)
Net Inc/Dec in cash equivalents	1,771	(17,043)	2,230	2,453	(3,777)
Opening Balance	12,932	17,548	7,185	9,266	11,719
Adjustments	2,845	6,680	(149)	0	0
Closing Balance Cash and Cash Equivalents	17,548	7,185	9,266	11,719	7,942

Exhibit 4: Ratio Analysis

Key Ratio	CY20	CY21	CY22	CY23E	CY24E
EBITDA Margin (%)	24.0%	24.2%	22.1%	23.6%	24.7%
Tax rate (%)	26.0%	25.9%	26.6%	25.6%	25.6%
Net Profit Margin (%)	15.6%	14.4%	14.1%	15.7%	16.2%
RoE (%)	103.1%	108.8%	97.2%	100.7%	93.0%
RoCE (%)	137.8%	160.4%	134.1%	135.3%	125.1%
EPS (INR)	216.0	219.7	247.9	321.4	365.1
PE	95.8x	84.7x	82.5x	64.4x	56.7x

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	35,617	49,756
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	14,449	14,449
Total non-current assets	37,147	54,720	54,886	63,445	77,584
Current assets					
Inventories	14,165	15,927	19,288	22,238	23,756
Financial assets					
Investments	7,229	633	2,174	2,174	2,174
Trade receivables	1,649	1,660	1,919	2,161	2,377
Cash and cash equivalents	17,548	7,185	9,266	11,719	7,942
Other Balances with Banks	151	169	190	190	190
Loans	132	107	103	103	103
Other financial assets	590	508	583	680	748
Other current assets	387	1,434	1,381	1,611	1,772
Total current assets	41,851	27,622	34,902	40,874	39,062
TOTAL ASSETS	78,997	82,341	89,787	1,04,319	1,16,646
EQUITY AND LIABILITIES					
Equity					
Equity share capital	964	964	964	964	964
Other equity	19,229	18,500	23,628	29,826	36,865
Total equity	20,193	19,464	24,592	30,790	37,830
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	37,399	41,142
Other non-current liabilities	221	200	174	202	223
Total non-current liabilities	33,878	35,230	34,398	39,774	43,538
Current liabilities					
Financial liabilities					
Borrowings	31	66	34	34	34
Trade payables	15,166	17,482	19,338	22,296	23,818
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	33,755	35,278
Total liabilities	58,804	62,878	65,196	73,529	78,816
TOTAL EQUITY AND LIABILITIES	78,997	82,341	89,787	1,04,319	1,16,646

Source: Company, KRChoksey Research

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Nestle India Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
26-Apr-23	20,756	23,000	ACCUMULATE	Buy	More than 15%
17-Feb-23	19,002	21,805	ACCUMULATE		
20-Oct-22	19,800	21,805	ACCUMULATE	Accumulate	5% – 15%
01-Aug-22	19,359	21,334	ACCUMULATE		
22-Apr-22	18,188	19,472	ACCUMULATE	Hold	0 – 5%
21-Feb-22	18,009	19,982	ACCUMULATE		
22-Oct-21	19,007	21,150	ACCUMULATE	Reduce	-5% – 0
02-Aug-21	17,715	19,640	ACCUMULATE		
30-Jun-21	17,599	19,640	ACCUMULATE	Sell	Less than – 5%
22-Apr-21	16,790	19,640	BUY		

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