

April 25, 2023

RESULT REPORT Q1 CY23 | Sector: Consumer Staples

Nestle India

Strong topline performance; Valuations leave little room

Nestle India's (NEST) 1QCY23 topline growth surprised us positively delivering highest quarterly growth in last 10 years. Momentum in domestic revenue growth improved in 1QCY23 versus 4QCY22, with growth of 21.2% YoY (5-year CAGR of ~12.5%). This strong performance was broad based, and we believe, was aided by distribution expansion (including Project RURBAN) and continued acceleration in modern channels of distribution, well supported by media campaigns and consumer activations. After showing signs of improvement in 4QCY22, gross margin took a slight hit in 1QCY23 sequentially (down 110bps QoQ and down 150bps YoY to 53.8%) due to higher commodity prices particularly milk & its derivatives, wheat flour, edible oil, partly offset by better realisations. Important to note that there are early signs of softening of commodities such as edible oils, wheat & packaging materials. However, cost of fresh milk, fuels, and green coffee are expected to remain firm. Economies of scale, implementation of procurement strategies and accelerated SHARK savings programme are playing a key role in supporting operating performance in near term. As there we no one-offs in this quarter's performance, we expect no major change in momentum in coming quarters and thus revise our CY23E/CY24E EPS upwards by 7.4%/9%. We maintain our NEUTRAL rating with a revised target price of Rs21,765 (Rs20,160 earlier), as valuations little room for error on execution.

Result Highlights

- **Headline performance:** NEST's 1QCY23 revenues (inclgd. OOI) grew by 21% YoY to Rs48.3bn (vs. est. Rs44bn). EBITDA grew by 19.7% YoY to Rs11.1bn (vs. est. Rs9.9bn). Adjusted PAT (APAT) grew by 25.8% YoY to Rs7.5bn (vs. est. Rs6.3bn).
- Domestic sales grew 21.2% YoY to Rs46.1bn and was broad based with a healthy balance of pricing, volume, and mix. Exports (~4.1% of sales for the quarter) grew by 24.9% YoY to Rs1.96bn. Media reports suggest domestic volume growth stood at 5% versus our expectations of 2% growth for the quarter. Volume growth ex-Maggi small packs stood at 11-12%.
- Gross margin was down 110bps QoQ and 150bps YoY to 53.8%. Savings in operating costs (staff cost down 60bps YoY and other expenses were down 70bps YoY) meant that EBITDA margin was only down 20bps YoY to 23% (vs. est. 22.5%).

View and Valuation

We remain confident that NEST will be able to sustain its healthy earnings growth over CY22-24E led by distribution expansion, further strengthening of its position in rural areas (contributes ~20-25% to domestic topline) & tier 2/3 cities and new product/variant launches (backed by R&D capabilities and faster growth in the premium portfolio). Addition of new categories (Pet Care and Toddler Nutrition segments) will add to the long-term earnings trajectory for NEST. After seeing a robust start to CY23, we are now building strong 19.6% EPS CAGR led by 13.8% revenue CAGR and EBITDA margin expansion of ~220bps to 24.5% (driven by gross margin expansion of ~330bps to 58%). The stock is currently trading at ~63x/57x CY23E/CY24E EPS and leaves little room for error on execution. Dividend payout remains high and return ratios are also best in the industry even while major capex is expected in the next two years (~Rs13bn in CY23 and ~Rs20bn in CY24). We maintain our NEUTRAL rating on NEST with a revised target price of Rs21,765 (Rs20,160 earlier), valuing it at ~65x March'2024E EPS (implied March'25E PE multiple of ~59x; 3yr/5yr avg fwd. multiple ~71x/65x).

Exhibit 1: Actual vs estimate

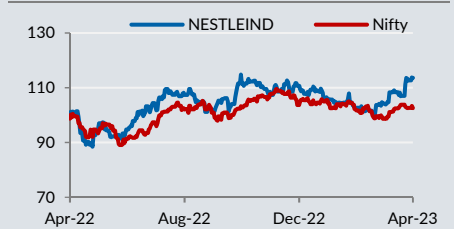
Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	48,305	43,987	43,659	9.8	10.6
EBITDA	11,100	9,889	10,202	12.2	8.8
EBITDA Margin (%)	23.0	22.5	23.4	0.5	(0.4)
Adjusted PAT	7,511	6,302	6,705	19.2	12.0

Reco	: NEUTRAL
CMP	: Rs 20,665
Target Price	: Rs 21,765
Potential Return	: +5.3%

Stock data (as on April 25, 2023)

Nifty	17,769
52 Week h/l (Rs)	21050 / 16000
Market cap (Rs/USD mn)	1994774 / 24259
Outstanding Shares (mn)	96
6m Avg t/o (Rs mn):	1,152
Div yield (%):	1.1
Bloomberg code:	NEST IN
NSE code:	NESTLEIND

Stock performance



	1M	3M	1Y
Absolute return	9.0%	7.4%	13.7%

Shareholding pattern (As of Dec'22 end)

Promoter	62.8%
FII+DII	21.2%
Others	16.1%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price (Rs)	21,765	20,160

Δ in earnings estimates

	CY23e	CY24e
EPS (New)	325.9	361.4
EPS (Old)	303.4	331.7
% change	+7.4	+9.0

Financial Summary

(Rs mn)	CY22	CY23E	CY24E
Revenue	168,970	198,027	218,878
YoY Growth (%)	14.6	17.2	10.5
EBIDTA	37,583	47,407	53,544
Margins (%)	22.2	23.9	24.5
PAT	24,362	31,427	34,848
EPS	253	326	361
YoY Growth (%)	6.6	29.0	10.9
ROCE (pre-tax)	154.7	164.0	157.1
ROE	110.6	118.3	113.2
P/E	81.8	63.4	57.2
EV/EBITDA	52.6	41.7	37.0

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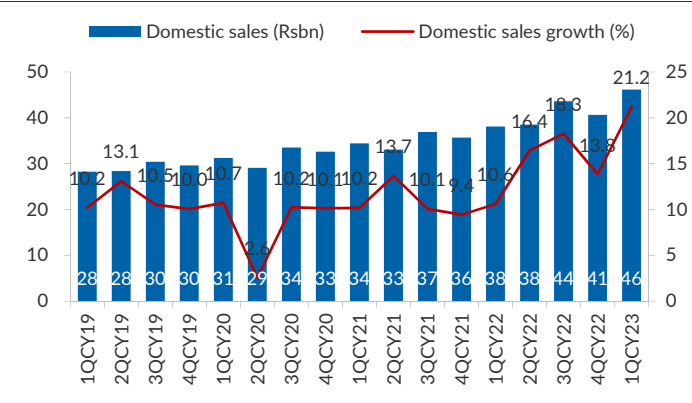
- **Segmental performance:** Confectionery led by KITKAT, and MUNCH posted a strong growth, supported by consumer led campaigns, innovation and engagement. Beverages turned in another quarter of robust growth and market share gains led by NESCAFE Classic, NESCAFE Sunrise, and NESCAFE GOLD. Prepared Dishes and Cooking Aids delivered strong growth across all products in its portfolio supported by portfolio upgradation. Milk products and Nutrition continued its strong performance led by MILKMAID among others.
- **Channel performance:** E-commerce delivered strong performance with significant growth in quick commerce. Organized Trade channel witnessed broad based growth across product groups in retail business fuelled by rapid outlet expansion. Out-of-Home (OOH) channel posted strong performance. Growth has been secular across brands, geographies, and channels. Exports saw strong double-digit growth of product portfolio in global markets through both mainstream and ethnic channels.
- **Commodity price outlook** – Witnessing early signs of softening of commodities such as edible oils, wheat and packaging materials. However, cost of fresh milk, fuels, and green coffee are expected to remain firm because of continued increase in demand and volatility.

Exhibit 2: Quarterly snapshot

Particulars (Rs. Mn)	1QCY22	4QCY22	1QCY23	YoY (%)	QoQ (%)
Revenue	39,926	42,568	48,305	21.0	13.5
COGS	17,850	19,215	22,315	25.0	16.1
Gross margin %	55.3	54.9	53.8	-1.5	-1.1
Employee costs	3,983	4,070	4,543	14.0	11.6
% of sales	10.0	9.6	9.4	-0.6	-0.2
Other expenses	8,822	9,515	10,348	17.3	8.8
% of sales	22.1	22.4	21.4	-0.7	-0.9
EBITDA	9,271	9,769	11,100	19.7	13.6
EBITDA margin %	23.2	22.9	23.0	-0.2	0.0
Depreciation	1,045	987	1,017	-2.7	3.1
EBIT	8,226	8,782	10,083	22.6	14.8
Interest expense	356	448	370	4.0	-17.4
Other income	214	296	337	57.1	14.0
Exceptional items	0	0	0	0.0	0.0
PBT	8,085	8,630	10,049	24.3	16.5
Tax	2,115	2,310	2,538	20.0	9.9
Effective tax rate %	26.2	26.8	25.3	-0.9	-1.5
Adj. PAT	5,969	6,319	7,511	25.8	18.9
Adj. PAT margin %	15.0	14.8	15.5	0.6	0.7
EPS	61.9	65.5	77.9	25.8	18.9

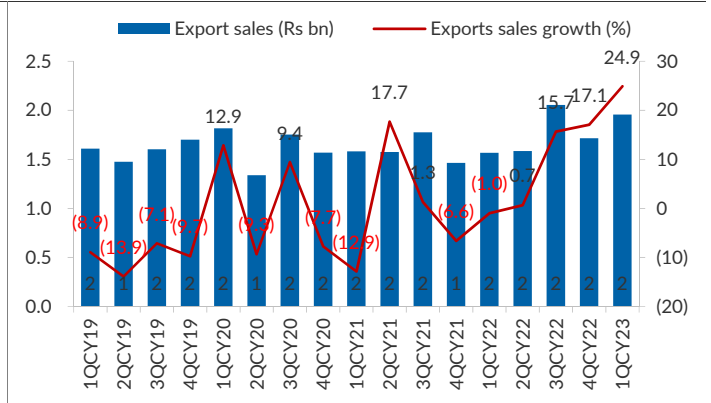
Source: Company, YES Sec

Exhibit 3: Domestic sales grew ~21% YoY in 1QCY23



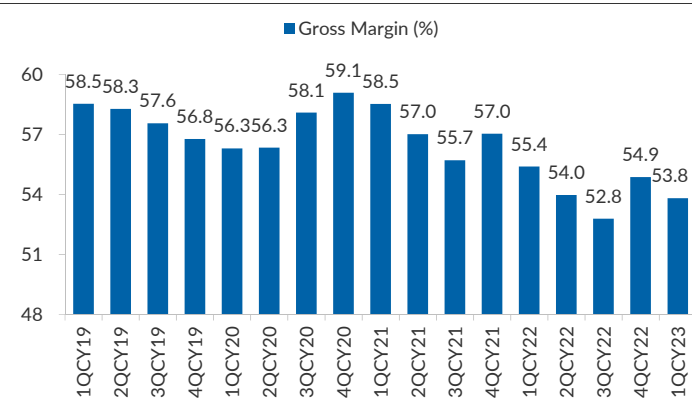
Source: Company, YES Sec

Exhibit 4: Exports (~4.1% of sales in 1QCY23) grew by ~24.9% YoY



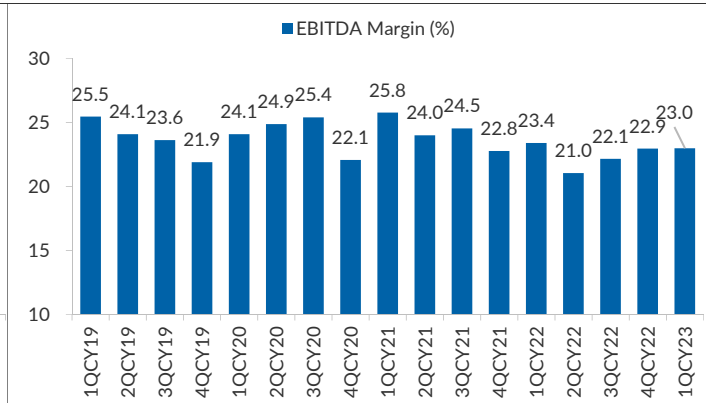
Source: Company, YES Sec

Exhibit 5: Gross margin was down 150bps YoY to 53.8% (down 110bps QoQ)



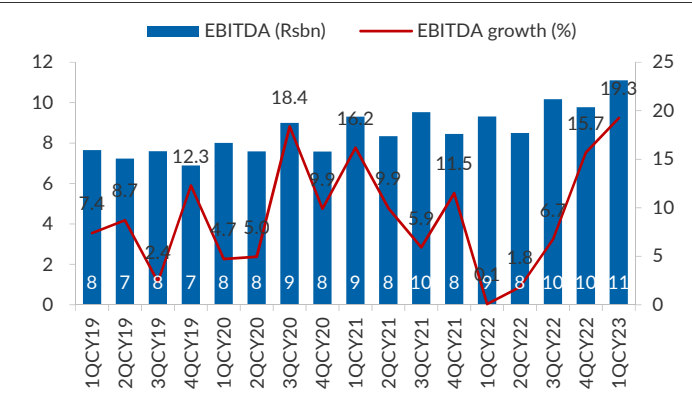
Source: Company, YES Sec

Exhibit 6: Savings in operating expenses: - Staff cost down 60bps YoY and other expenses down 70bps YoY, meant that EBITDA margin was down only 20bps YoY to 23% as a % of revenue



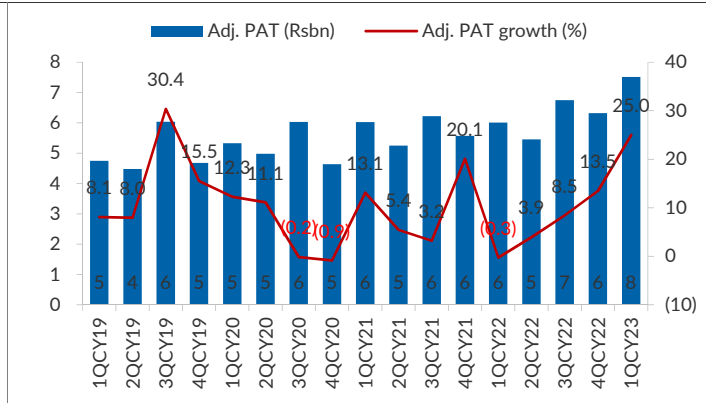
Source: Company, YES Sec

Exhibit 7: EBITDA grew by 19.3% YoY in 1QCY23



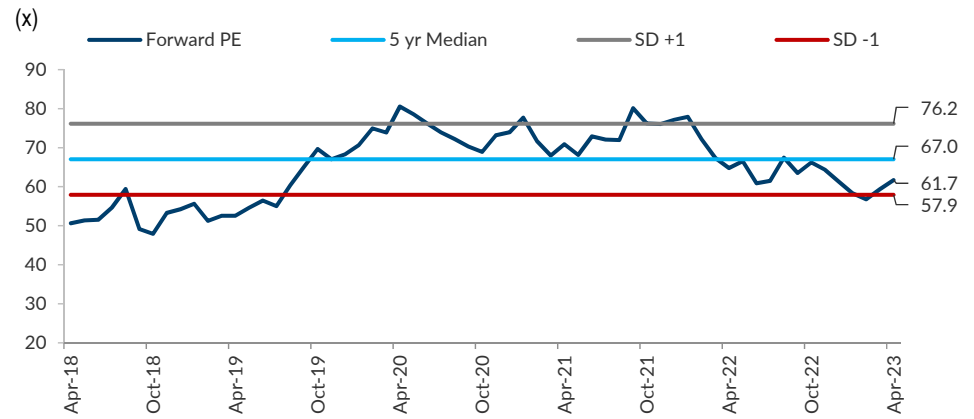
Source: Company, YES Sec

Exhibit 8: APAT grew by 25% YoY in 1QCY23



Source: Company, YES Sec

Exhibit 9: Currently trading at ~62x 1-yr fwd P/E



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/E March (Rsmn)	CY20	CY21	CY22	CY23E	CY24E
Share capital	964	964	964	964	964
Reserves	19,229	18,500	23,628	27,575	32,051
Net worth	20,193	19,464	24,592	28,539	33,015
Total debt	348	341	300	300	300
Deferred tax liability	(199)	(258)	(256)	(256)	(256)
Total liabilities	20,343	19,546	24,636	28,583	33,059
Gross block	39,983	51,187	54,740	67,740	87,740
Depreciation	18,189	21,241	24,303	28,896	34,727
Net block	21,794	29,947	30,437	38,844	53,014
Capital work-in-progress	6,386	2,462	3,584	3,584	3,584
Investments	14,638	7,740	7,775	8,770	9,209
Inventories	14,165	15,927	19,288	21,841	23,759
Debtors	1,649	1,660	1,919	2,321	2,625
Cash	17,699	7,354	9,456	8,217	2,920
Loans, advances & other assets	2,468	16,994	17,073	17,244	17,416
Total current assets	35,981	41,934	47,735	49,623	46,720
Creditors	15,166	17,482	19,338	22,769	24,225
Other current liabilities & provisions	43,290	45,055	45,557	49,469	55,242
Total current liabilities	58,456	62,537	64,895	72,238	79,467
Net current assets	(22,475)	(20,603)	(17,160)	(22,615)	(32,747)
Total assets	20,343	19,546	24,636	28,583	33,059

Source: Company, YES Sec

Exhibit 11: Income statement

Y/E March (Rsmn)	CY20	CY21	CY22	CY23E	CY24E
Net Sales	133,500	147,406	168,970	198,027	218,878
% Growth	7.9	10.4	14.6	17.2	10.5
COGS	56,739	63,482	77,499	87,481	93,074
Staff costs	15,109	15,443	16,679	18,912	21,452
Other expenses	29,498	33,056	37,209	44,228	50,808
Total expenses	101,346	111,980	131,387	150,620	165,334
EBITDA	32,154	35,426	37,583	47,407	53,544
% growth	9.0	10.2	6.1	26.1	12.9
EBITDA margin (%)	24.1	24.0	22.2	23.9	24.5
Other income	1,459	1,202	1,010	1,252	1,102
Interest costs	1,642	2,017	1,546	1,597	1,723
Depreciation	3,704	3,910	4,030	4,593	5,831
Profit before tax	28,267	30,700	33,017	42,469	47,092
Exceptional items	-140	-1,678	-457	0	0
Tax	7,304	7,838	8,655	11,042	12,244
Rate of Tax (%)	25.8	25.5	26.2	26.0	26.0
PAT	20,824	21,184	23,905	31,427	34,848
Adj PAT	20,964	22,862	24,362	31,427	34,848
Adj PAT margin (%)	15.7	15.5	14.4	15.9	15.9
% Growth	5.2	9.1	6.6	29.0	10.9

Source: Company, YES Sec

Exhibit 12: Cash flow statement

Y/E March (Rsmn)	CY20	CY21	CY22	CY23E	CY24E
PAT	21,099	21,287	24,148	31,772	35,469
Depreciation	3,704	3,910	4,030	4,593	5,831
Other income	(1,489)	(1,215)	(683)	(1,252)	(1,102)
Interest paid	265	95	181	1,597	1,723
(Inc.)/dec. in working capital	966	(1,718)	(302)	4,216	4,835
Cash flow from operations	24,545	22,360	27,374	40,926	46,755
Capital expenditure (-)	(4,741)	(7,308)	(5,407)	(13,000)	(20,000)
Net cash after capex	19,804	15,052	21,967	27,926	26,755
Inc./(dec.) in investments & others	4,374	(5,197)	1,362	(87)	43
Cash flow from investments	(368)	(12,505)	(4,045)	(13,087)	(19,957)
Dividends paid (-)	(18,898)	(19,283)	(20,247)	(27,480)	(30,372)
Others	(661)	(917)	(980)	(1,597)	(1,723)
Cash from financial activities	(19,559)	(20,200)	(21,227)	(29,077)	(32,095)
Opening cash balance	13,081	17,699	7,354	9,456	8,217
Closing cash balance	17,699	7,354	9,455	8,217	2,919
Change in cash balance	4,618	(10,345)	2,102	(1,239)	(5,298)

Exhibit 13: Growth and Ratio matrix

Y/E March	CY20	CY21	CY22	CY23E	CY24E
Per share (Rs)					
EPS	217	237	253	326	361
Book value	209	202	255	296	342
DPS	196	200	220	285	315
Valuation (x)					
EV/sales	13.9	13.4	11.7	10.0	9.0
EV/EBITDA	57.9	55.8	52.6	41.7	37.0
P/E	90.3	87.2	81.8	63.4	57.2
P/BV	93.7	102.4	81.0	69.8	60.4
Return ratios (%)					
RoCE (pre-tax)	148.6	162.2	154.7	164.0	157.1
RoE	106.5	115.3	110.6	118.3	113.2
Profitability ratios (%)					
Gross margin	57.5	56.9	54.1	55.8	57.5
EBITDA margin	24.1	24.0	22.2	23.9	24.5
EBIT margin	21.3	21.4	19.9	21.6	21.8
PAT margin	15.7	15.5	14.4	15.9	15.9
Liquidity ratios (%)					
Current ratio	0.6	0.7	0.7	0.7	0.6
Quick ratio	0.4	0.4	0.4	0.4	0.3
Turnover ratios					
Total asset turnover ratio (x)	6.6	7.4	7.6	7.4	7.1
Fixed asset turnover ratio (x)	6.1	4.9	5.6	5.1	4.1
Inventory days	87	87	83	86	89
Debtors days	4	4	4	4	4
Creditor days	97	94	87	88	92

Source: Company, YES Sec

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