

Nestle India Ltd.



Nestle India Ltd.

Broad-based double-digit revenue growth continues

 CMP
INR 22,490

 Target
INR 24,300

 Potential Upside
8%

 Market Cap (INR Mn)
INR 21,98,770

 Recommendation
ACCUMULATE

 Sector
FMCG

Result highlights

- Q2CY23 revenue grew by 15.1% YoY to INR 46,585 mn (-3.6% QoQ). For H1CY23, revenue grew by 18.0% YoY to INR 94,891 mn.
- EBITDA for the quarter was INR 10,555 mn, which was a growth of 27.1% YoY but a decline of 4.6% QoQ. For H1CY23, EBITDA grew by 23.5% YoY to INR 21,623 mn. EBITDA margin expanded by 213 bps YoY but contracted by 25 bps QoQ for the quarter to 22.7%. For H1CY23, the EBITDA margin expanded by 100 bps YoY to 22.8%.
- PAT for Q2CY23 was INR 6,983 mn (+36.9% YoY/ -5.2% QoQ). PAT for H1CY23 grew by 30.3% YoY to INR 14,350 mn.

MARKET DATA

Shares O/S (Mn)	96
Mkt Cap (INR Mn)	21,98,770
52 Wk H/L (INR)	23,395/ 17,880
Volume Avg (3m K)	66
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	1,96,226	2,16,623
EBITDA	32,015	35,676	37,420	46,103	53,443
PAT	20,824	21,184	23,905	30,910	35,501
Adj PAT	20,824	23,561	24,200	30,932	35,501
EPS (INR)	216.0	219.7	247.9	320.6	368.2
Adj. EPS (INR)	216.0	244.4	251.0	320.8	368.2
EBITDA Margin (%)	24.0%	24.2%	22.1%	23.5%	24.7%
Adj. NPM (%)	15.6%	16.0%	14.3%	15.8%	16.4%

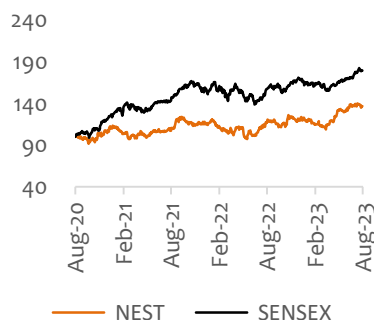
Source: Company, KRChoksey Research

Continued double-digit revenue growth: NEST's revenue for Q2CY23 grew by 15.1% YoY to INR 46,585 mn (-3.6% QoQ). All product categories registered double-digit growth for the 5th consecutive quarter. Domestic sales grew by 14.6% YoY, on the back of prudent pricing and supported by mix and volume with targeted brand support. Export Sales increased by 25.4% YoY. NEST witnessed strong growth across Megacities and Metros, robust performance in Tier 1 to 6 towns and continued strength in rural markets. For H1CY23, revenue grew by 18.0% YoY to INR 94,891 mn with domestic sales growth of 17.9% YoY and export growth of 25.2% YoY. Growth in volumes and mix was 4% to 5% for H1CY23.

Gross margins improved QoQ, while EBITDA margin declined: NEST's gross margins in Q2CY23 improved by 93 bps YoY/ 101 bps QoQ. On a YoY basis, higher net realizations were partly offset by commodity cost increases in milk and its derivatives, wheat flour, edible oil and coffee. NEST accelerated its focus on brand building and continued to make relevant investments. EBITDA was INR 10,555 mn, a growth of 27.1% YoY but a decline of 4.6% QoQ. EBITDA margin expanded by 213 bps YoY but contracted by 25 bps QoQ to 22.7%. Historically, margins have been lower sequentially in Q2. For H1CY23, EBITDA grew by 23.5% YoY to INR 21,623 mn. For H1CY23, the EBITDA margin expanded by 100 bps YoY to 22.8%.

Other updates: (1) The Board of Directors approved the change of financial year of the Company to a March to April year instead of a January to December year currently. As a transitional arrangement, the current financial year of the Company will be for a period of 15 months commencing 01 January 2023 and ending 31 March 2024. (2) NEST's 10th manufacturing facility will be set up in Odisha. (3) During the quarter, NEST launched 3 new products- i) Resource Fiber Choice, a unique and effective gut health solution to help relieve constipation and improve gut health, ii) Everyday Zero, a dairy whitener with no added sugar, iii) MUNCH Breakfast Cereals. (4) NEST increased its distribution footprint under the RURBAN strategy and achieved higher penetration. (5) The Out-of-Home business continued to deliver strong growth aided by portfolio transformation and robust precise execution of differentiated channel and geography plans. (6) Commodities such as edible oils, wheat and packaging materials have been in the lower price range, milk has seen some stability, while coffee prices remain elevated.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	65,783
NIFTY	19,483

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	62.8	62.8	62.8
FIIs	12.4	12.1	12.1
DIIIs	9.1	9.2	9.1
Others	15.8	16.0	16.1
Total	100.0	100.0	100.0

13.2%

 Revenue CAGR between CY22
and CY24E

21.1%

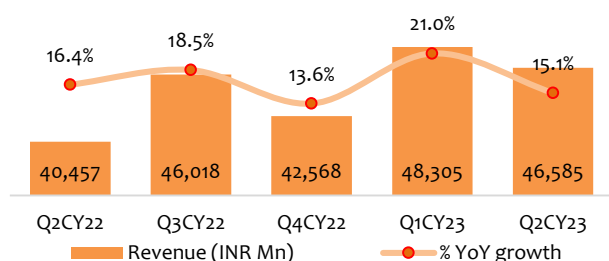
 Adj. PAT CAGR between CY22 and
CY24E

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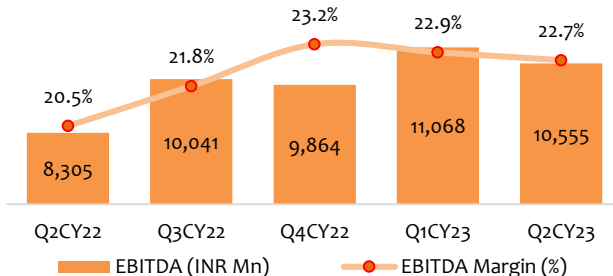
Valuation and view:

NEST has seen consistent double-digit revenue growth which is broad-based across product categories despite high inflation in key commodities such as milk and coffee. The growth is seen across town classes including metros, megacities, and rural. Rural growth is aided by NEST's RURBAN strategy, where it is focusing on penetration-led growth. NEST is seeing volume growth in the range of 4% to 5%, which should gradually increase to the historical average of 7% to 8% if the inflation moderates further. NEST's focus on cost-cutting initiatives through the SHARK savings program, which led to savings of 1.5% to 2% of sales, will continue to yield results going ahead as well. NEST's premiumization thrust will also lead to improved performance. We revise our CY23E/CY24E EPS by -0.3%/ +0.9%, respectively. We like NEST's consistent topline growth and the margin improvement story over the coming years. We continue to report our estimates on a January-December year as of now for better comparability. We expect Revenue/ EBITDA/ Adj. PAT to grow at a CAGR of 13.2%/ 19.5%/ 21.1%, respectively over CY22-CY24E. **We apply P/E of 66.0x (63.0x earlier) on CY24E EPS of INR 368.2 and arrive at a target price of INR 24,300 per share (INR 23,000 earlier) with an upside potential of 6.6% from the CMP. Accordingly, we maintain our "ACCUMULATE" recommendation on the shares of Nestle India.**

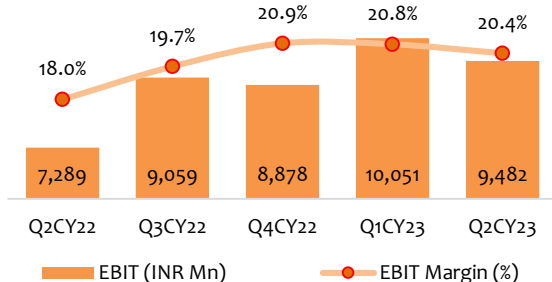
Revenue growth continues to be in double-digits



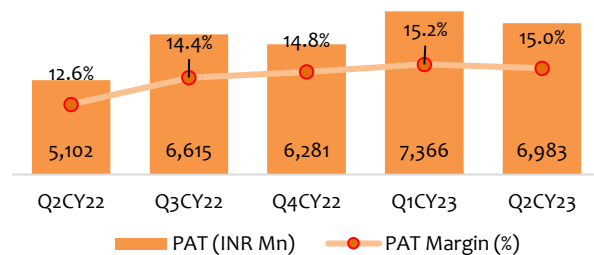
EBITDA margin sees slight QoQ pull back



EBIT margin lower QoQ



PAT margin declines slightly QoQ



Q2CY23 Result

Particulars (INR Mn)	Q2CY23A	Q1CY23A	Q2CY22A	Q-o-Q	Y-o-Y
Sales	46,585	48,305	40,457	-3.6%	15.1%
Total Expenditure	36,030	37,238	32,152	-3.2%	12.1%
Cost of Raw Materials	19,775	21,827	18,474	-9.4%	7.0%
Purchase of Stock	1,085	1,000	899	8.6%	20.6%
Changes in Inventories	191	-511	-717	137.3%	126.6%
Employee Cost	4,572	4,543	4,102	0.7%	11.5%
Other Expenses	10,407	10,380	9,394	0.3%	10.8%
EBITDA	10,555	11,068	8,305	-4.6%	27.1%
EBITDA Margin (%)	22.7%	22.9%	20.5%	-25 bps	213 bps
Depreciation	1,074	1,017	1,017	5.6%	5.6%
EBIT	9,482	10,051	7,289	-5.7%	30.1%
EBIT Margin (%)	20.4%	20.8%	18.0%	-45 bps	234 bps
Interest Expense	328	370	370	-11.4%	-11.3%
Other Income	240	337	194	-28.9%	23.6%
PBT	9,393	10,018	7,113	-6.2%	32.1%
Exceptional Item	0	113	160	-100.0%	-100.0%
Tax	2,410	2,538	1,850	-5.1%	30.3%
PAT	6,983	7,366	5,102	-5.2%	36.9%
PAT Margin (%)	15.0%	15.2%	12.6%	-26 bps	238 bps
EPS	72.4	76.4	52.9	-5.2%	36.9%
Adj. PAT	6,983	7,479	5,262	-6.6%	32.7%
Adj. PAT Margin	15.0%	15.5%	13.0%	-49 bps	198 bps
Adj. EPS	72.4	77.6	54.6	-6.6%	32.7%

Source: Company, KRChoksey Research

Nestle India Ltd.

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	1,96,226	2,16,623
COGS	56,739	63,482	77,499	88,703	95,384
Gross profit	76,761	83,924	91,471	1,07,523	1,21,238
Employee cost	15,010	15,299	16,355	18,339	20,138
Other expenses	29,737	32,949	37,697	43,081	47,657
EBITDA	32,015	35,676	37,420	46,103	53,443
EBITDA Margin	24.0%	24.2%	22.1%	23.5%	24.7%
Depreciation & amortization	3,704	3,910	4,030	4,316	5,696
EBIT	28,311	31,766	33,390	41,787	47,747
Other income	1,459	1,202	1,010	1,184	1,300
Interest expense	1,642	2,017	1,546	1,416	1,331
Exceptional items	0	2,377	294	23	0
PBT	28,128	28,573	32,560	41,533	47,716
Tax	7,304	7,389	8,655	10,623	12,215
PAT	20,824	21,184	23,905	30,910	35,501
Adj. PAT	20,824	23,561	24,200	30,932	35,501
EPS (INR)	216.0	219.7	247.9	320.6	368.2
Adj. EPS	216.0	244.4	251.0	320.8	368.2

Exhibit 3: Cash Flow Analysis

Particulars (INR Mn)	CY20	CY21	CY22	CY23E	CY24E
Net Cash Generated From Operations	24,545	22,360	27,374	39,206	44,640
Net Cash Flow from/(used in) Investing Activities	(3,215)	(19,203)	(3,917)	(14,301)	(18,679)
Net Cash Flow from Financing Activities	(19,559)	(20,200)	(21,227)	(25,989)	(29,731)
Net Inc/Dec in cash equivalents	1,771	(17,043)	2,230	(1,084)	(3,770)
Opening Balance	12,932	17,548	7,185	9,266	8,182
Adjustments	2,845	6,680	(149)	0	0
Closing Balance Cash and Cash Equivalents	17,548	7,185	9,266	8,182	4,411

Exhibit 4: Ratio Analysis

Key Ratio	CY20	CY21	CY22	CY23E	CY24E
EBITDA Margin (%)	24.0%	24.2%	22.1%	23.5%	24.7%
Tax rate (%)	26.0%	25.9%	26.6%	25.6%	25.6%
Net Profit Margin (%)	15.6%	14.4%	14.1%	15.8%	16.4%
RoE (%)	103.1%	108.8%	97.2%	100.4%	93.7%
RoCE (%)	137.8%	160.4%	134.1%	134.5%	125.1%
EPS (INR)	216.0	219.7	247.9	320.6	368.2
PE	105.6x	93.3x	90.9x	71.1x	61.9x

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	35,742	50,046
Capital work-in-progress	6,386	2,462	3,584	3,584	3,584
Right of use assets	2,114	3,417	3,379	3,544	3,544
Financial assets					
Investments	7,408	7,107	5,602	4,262	4,262
Loans	466	492	558	612	612
Deferred tax assets	199	258	256	317	317
Other non-current assets	894	14,453	14,449	16,407	16,407
Total non-current assets	37,147	54,720	54,886	64,466	78,771
Current assets					
Inventories	14,165	15,927	19,288	22,076	23,739
Financial assets					
Investments	7,229	633	2,174	3,795	3,795
Trade receivables	1,649	1,660	1,919	2,150	2,374
Cash and cash equivalents	17,548	7,185	9,266	8,182	4,411
Other Balances with Banks	151	169	190	185	185
Loans	132	107	103	102	102
Other financial assets	590	508	583	677	747
Other current assets	387	1,434	1,381	1,603	1,770
Total current assets	41,851	27,622	34,902	38,771	37,124
TOTAL ASSETS	78,997	82,341	89,787	1,03,237	1,15,895
EQUITY AND LIABILITIES					
Equity					
Equity share capital	964	964	964	964	964
Other equity	19,229	18,500	23,628	29,809	36,910
Total equity	20,193	19,464	24,592	30,774	37,874
LIABILITIES					
Non-current liabilities					
Financial liabilities					
Borrowings	317	275	267	267	267
Lease Liabilities	658	1,903	1,907	1,969	1,969
Provisions	32,683	32,853	32,052	37,222	41,091
Other non-current liabilities	221	200	174	201	222
Total non-current liabilities	33,878	35,230	34,398	39,659	43,549
Current liabilities					
Financial liabilities					
Borrowings	31	66	34	34	34
Trade payables	15,166	17,482	19,338	22,134	23,801
Lease liabilities	469	421	498	590	590
Other financial liabilities	6,612	6,588	6,680	5,613	5,613
Other current liabilities	1,588	1,703	2,640	2,519	2,519
Provisions	1,060	1,388	1,607	1,915	1,915
Total current liabilities	24,926	27,647	30,798	32,805	34,472
Total liabilities	58,804	62,878	65,196	72,464	78,021
TOTAL EQUITY AND LIABILITIES	78,997	82,341	89,787	1,03,237	1,15,895

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
08-Aug-23	22,490	24,300	ACCUMULATE	Buy	More than 15%
26-Apr-23	20,756	23,000	ACCUMULATE	Accumulate	5% – 15%
17-Feb-23	19,002	21,805	ACCUMULATE	Hold	0 – 5%
20-Oct-22	19,800	21,805	ACCUMULATE	Reduce	-5% – 0
01-Aug-22	19,359	21,334	ACCUMULATE	Sell	Less than – 5%
22-Apr-22	18,188	19,472	ACCUMULATE		

ANALYST CERTIFICATION:

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