

Nestle India

In-line show

Nestle reported an in-line Q3CY23 print as revenue grew by 9% while margins (both GM/EBITDAM) expanded. Domestic revenue growth of 10% YoY (HSIE 11%) was broad-based across categories and channels. Prudent pricing was supported by mix and volume (around low-single-digit volume growth). With a stable RM basket and higher net realization, GM expanded by 380bps YoY to 56.5% (57% two years back). While uneven rain and deficit rain can impact prices of maize, sugar, oilseed, spices and green coffee; a healthy winter flush to keep milk prices stable. EBITDA margin expanded by 250bps YoY to 24.8% on better cost control. EBITDA grew by 22% YoY (HSIE 20%). Nestle has announced a sub-division of the face value of shares to INR 1/share. 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 Sep-25E EPS to derive a TP of INR 20,000. With a rich valuation, the absolute upside is limited in the medium term. Maintain REDUCE.

- Domestic business sustains double-digit growth trend:** Revenue grew by 9% YoY (+18% in Q3CY22; +15% in Q2CY23, HSIE: 11%). Domestic revenue grew by 10% YoY (HSIE: 11%) while export revenue fell by 10% (HSIE: +9%). Domestic growth was broad-based across categories, supported by pricing, mix and volume. All the channels sustained strong momentum, with e-commerce now at 6.1% of sales. Momentum in e-commerce continued to be driven by quick commerce. The retail channel continued to grow in double digits while product transformation led to consistent performance in OOH which saw double-digit volume-led growth. We model a 12% revenue CAGR during CY22-25E.
- Margin recovery continues:** GM expanded by 380bps YoY (+170bps QoQ) to 56.5%, aided by higher net realizations and stabilizing RM basket. 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 23/11% YoY. EBITDA expanded by 250bps YoY to 24.8% (HSIE: 24.1%). EBITDA was up by 22% YoY (HSIE 20% YoY). Prices of maize, sugar, oilseed and spices may be impacted due to uneven rain and rain deficit. Coffee continues to remain volatile while Indian Robusta crop production may be impacted by weather. In fresh milk, healthy flush in winter to keep prices stable. We model 24/25% EBITDA margin during CY23/24/25E.
- Press release takeaways:** (1) Milk products and nutrition saw strong double-digit growth. (2) KITKAT and MUNCH led strong growth in confectionary. (3) Double-digit growth in beverages. NESCAFE saw highest highest-ever market share and strong household penetration. (4) Announced second interim dividend of INR 140/ share and sub-division of face value of equity shares to INR 1/ share. (5) Exceptional item of INR1.1bn due to write-back of provisions.

Quarterly/annual financial summary

YE Dec (INR mn)	Q3 CY23	Q3 CY22	YoY (%)	Q2 CY23	QoQ (%)	CY21	CY22	CY23E	CY24E	CY25E
Net Revenue	50,368	46,018	9.5	46,585	8.1	1,47,406	1,68,970	1,92,965	2,14,379	2,38,710
EBITDA	12,468	10,256	21.6	10,663	16.9	35,960	38,146	45,788	51,972	59,626
APAT	8,344	6,659	25.3	7,008	19.1	22,761	24,241	30,328	33,922	38,494
EPS (Rs)	86.5	69.1	25.3	72.7	19.1	236.1	251.4	314.5	351.8	399.2
P/E (x)						102.2	95.9	76.7	68.6	60.4
EV/EBITDA (x)						64.3	60.5	50.4	44.6	38.7
Core RoCE (%)						60.8	52.0	57.7	52.4	52.6

Source: Company, HSIE Research

REDUCE

CMP (as on 19 Oct 2023)	INR 24,132
Target Price	INR 20,000
NIFTY	19,625

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 20,000	INR 20,000
	CY23E	CY24E
EPS %	0%	0%

KEY STOCK DATA

Bloomberg code	NEST IN
No. of Shares (mn)	96
MCap (INR bn) / (\$ mn)	2,327/24,451
6m avg traded value (INR mn)	1,510
52 Week high / low	INR 24,229/17,880

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.2	17.0	22.3
Relative (%)	7.4	6.9	11.2

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	62.76	62.76
FIs & Local MFs	9.05	9.32
FPIs	12.38	12.10
Public & Others	15.81	15.82
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:

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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

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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