

# Nestle India Ltd.



**Nestle India Ltd.**
**Revenue growth remains strong; margins improve**

CMP INR 24,057	Target INR 26,111	Potential Upside 8.5%	Market Cap (INR Mn) 23,18,798	Recommendation <b>ACCUMULATE</b>	Sector Consumer
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**Result highlights**

- NEST's revenue for Q3CY23 grew by 9.5% YoY/ 8.1% QoQ to INR 50,368 Mn. For 9MCY23, revenue grew by 14.9% YoY to INR 1,45,259 Mn.
- For the quarter, domestic sales grew by 10.3% YoY/ 9.1% QoQ while export sales declined by 9.6% YoY/ 6.5% QoQ. For 9MCY23, domestic sales growth was at 15.1% YoY and export growth was at 11.5% YoY.
- EBITDA grew by 22.3% YoY/ 16.3% QoQ to INR 12,280 Mn in Q3CY23. For 9MCY23, EBITDA grew by 23.0% YoY to INR 33,903 Mn.
- EBITDA margin for the quarter expanded by 256 bps YoY/ 172 bps QoQ to 24.4%. For 9MCY23, EBITDA margin saw an expansion of 154 bps YoY to 23.3%.
- PAT expanded by 37.3% YoY/ 30.0% QoQ to INR 9,081 Mn in the quarter. For 9MCY23, PAT grew by 32.9% YoY to INR 23,431 Mn.
- Exceptional item in Q3CY23 represents a write-back of provisions made in earlier periods for an indirect tax matter upon the settlement of the dispute with the concerned state Government authority. Excluding the impact of this exceptional item, the Adj. PAT grew by 21.7% YoY/ 15.2% QoQ to INR 8,047 Mn in the quarter and grew by 26.6% YoY to INR 22,510 Mn in 9MCY23.

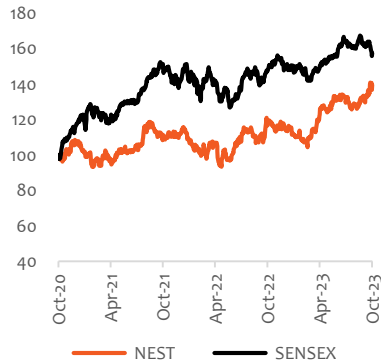
**MARKET DATA**

Shares O/S (Mn)	96
Mkt Cap (INR Mn)	23,18,798
52 Wk H/L (INR)	24,745/ 17,880
Volume Avg (3m K)	70
Face Value (INR)	10
Bloomberg Code	NEST IN

**KEY FINANCIALS**

Particulars (INR Mn)	CY21	CY22	CY23E	CY24E	CY25E
Net Sales	1,47,406	1,68,970	1,94,185	2,17,849	2,43,990
EBITDA	35,676	37,420	46,030	53,566	60,408
PAT	21,184	23,905	30,737	35,690	39,963
Adj. PAT	23,561	24,200	30,645	35,690	39,963
EPS (INR)	219.7	247.9	318.8	370.2	414.5
Adj. EPS (INR)	244.4	251.0	317.8	370.2	414.5
EBITDA Margin (%)	24.2%	22.1%	23.7%	24.6%	24.8%
Adj. Net Profit Margin (%)	16.0%	14.3%	15.8%	16.4%	16.4%

Source: Company, KRChoksey Research


**MARKET INFO**

SENSEX	63,783
NIFTY	19,047

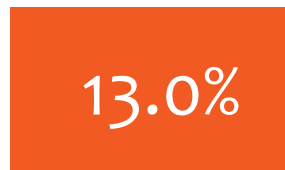
**Revenue crossed INR 50,000 Mn mark for the first time, revenue growth remains strong:** NEST's revenue for Q3CY23 grew by 9.5% YoY/ 8.1% QoQ to INR 50,368 Mn. Domestic sales grew by 10.3% YoY/ 9.1% QoQ, aided by mix, volume and price. Export sales declined by 9.6% YoY/ 6.5% QoQ. Prepared Dishes and Cooking Aids saw continued growth momentum across the portfolio, driven by market visibility, media campaigns and targeted consumer engagement initiatives aided by innovation, especially for RURBAN markets. The Milk Products and Nutrition segment saw a double-digit YoY growth. All key products of the Confectionery segment registered strong growths, aided by consistent media support, digital-first campaigns and a mega launch plan on KITKAT's premium portfolio. Within Beverages, the Nescafé portfolio saw strong growth with all key brands - Nescafé Classic, Nescafé Sunrise and NESCAFÉ GOLD registering double-digit growths. Out-of-home business registered double-digit growth. For 9MCY23, revenue grew by 14.9% YoY to INR 1,45,259 Mn, domestic sales growth was at 15.1% YoY and export growth was at 11.5% YoY.

**Gross margins continue to improve sequentially:** Gross margin for the quarter expanded by 381 bps YoY/ 167 bps QoQ, due to a combination of commodity costs softening and better price realizations. EBITDA grew by 22.3% YoY/ 16.3% QoQ to INR 12,280 Mn in Q3CY23. EBITDA margin expanded by 256 bps YoY/ 172 bps QoQ to 24.4%. For 9MCY23, EBITDA grew by 23.0% YoY to INR 33,903 Mn and the EBITDA margin saw an expansion of 154 bps YoY to 23.3%.

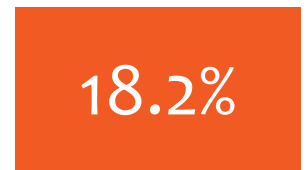
**Competition, commodity costs and pricing:** Within the Maggi portfolio, there have been some new market entrants for products like Masala-e-Magic. But they have not seen much traction except in pockets where there is acute price competition. When NEST took price hikes in small packs of noodles, it was impacted in some geographies due to competition. However, this was later mitigated by introducing RURBAN-specific packages and tailoring the portfolio in terms of INR 10 price point. In the case of coffee, because of high prices, competition from local players has been muted. Parts of the commodity costs basket are still concerning. Green coffee prices are still volatile. Packaging costs are stable but can be impacted by oil prices and geo-political issues in the Middle East. Wheat prices are stable so far, however, there is an increase in Minimum Selling Price (MSP), which NEST believes it will be able to absorb. NEST will hold the prices in coffee unless there is a big uptick in commodity prices. Last year, NEST took price initiatives in at least half of the portfolio. While the pace of increase in commodity costs has slowed, they still remain at elevated levels. As a result, NEST does not expect to roll back the pricing in the near term.

**SHARE HOLDING PATTERN (%)**

Particulars	Sep-23	Jun-23	Mar-23
Promoters	62.8	62.8	62.8
FIIIs	12.1	12.4	12.1
DIIs	9.3	9.1	9.2
Others	15.8	15.8	16.0
Total	100.0	100.0	100.0



Revenue CAGR between CY22 and CY25E



Adj. PAT CAGR between CY22 and CY25E

## Nestle India Ltd.

### Key Concall Highlights:

#### 1) India's growth story

- NEST believes there is a significant growth opportunity in India. Of the total 1.4 Bn Indian consumers, the addressable population for NEST currently is 487 Mn, which is the striving and middle-class population of the country. This segment is likely to grow to 700 Mn levels in the next few years and is the focus area for NEST.
- The total F&B market size in India is valued at USD 800 Bn. Of this, the packaged market size is at USD 100 Bn and the branded packaged market size is at USD 40 Bn. As a result, there is a tremendous opportunity for growth in terms of brands, categories, channels, etc. in the branded packaged space.
- The factors that are leading to the rise of new India include a high number of mobile users and high data usage, an increase in road infra, rural electrification, the largest Gen-Z population in the world, high number of UPI transactions, entrepreneurial rise and significant FDI flows.
- For India, premium as well as price point-sensitive products are important segments. Larger companies need to have exposure to both.
- Due to low penetration levels, penetration-led volume growth will continue to be the core focus of NEST. The per capita consumption of packaged foods in India is below China at 4.2x and Philippines at 3.3x.
- The lifestyle trends of Gen-Z and millennials are important as that is where the market is going. The trends include a higher focus on natural, fresh and sustainable, a change in communication to 'reel'-like formats, a higher number of consumers seeking personalized products and services, higher levels of snacking and the importance of mindful indulgence with a focus on taste.

#### 2) Innovation

- NEST has launched 125 products in the last 7 years. NEST has 10 new projects in the pipeline which will be launched in this or next year.
- Innovation contributes to 6.0% of sales currently. The long-term objective is to get to a 10.0% innovation contribution to total sales.
- Globally, NEST's parent company has a 3-tiered structure for R&D. Tier 1 is the centralized research for critical mass in key areas. Tier 2 is converting science to technology. This includes category-focused development in proximity to business. Tier 3 is regional innovation to implement global technologies to convert products regionally.
- The innovation process has been transformed in the last few years. The average time to market has been reduced from 33 months in CY16 to 12 months now. The no. of innovations globally increased by 23.0% from CY20 to CY22. The Nestle Global R&D Centre India has seen 3x growth in innovation.

#### 3) Growth

- NEST's volume CAGR over CY18 to CY22 was 6.7%. Revenue growth was seen across geographies with CAGR over Q4CY20 to Q3CY23 of 15.4% in megacities, 21.0% in metros, 10.2% in Town class (TC) 1, 11.2% in TC 2-6 and 26.6% in villages.
- Rural growth was higher on account of NEST's RURBAN strategy. NEST has deepened its rural reach to 108k villages now and the ambition is to reach 120k by CY24E. Distribution infrastructure has been strengthened. Feet on the street has also been expanded by 50.0% over CY20.
- For gMCY23, Milk Products And Nutrition segment revenue grew by 15.3% YoY, Prepared Dishes And Cooking Aid revenue grew by 10.7% YoY, Confectionary revenue grew by 21.4% YoY and Beverages revenue grew by 18.6% YoY.
- NEST has laid out 10 mantras to define the future: (1) Balance in growth and profitability; (2) Expanding opportunities with new consumer cohorts; (3) Strong investments in manufacturing and supply chain; (4) Invest in long-term partnerships; (5) Expanding and accelerating RURBAN thrust; (6) Acceleration of Analytics and digitization journey; (7) Accelerate sustainability; (8) Focus on people- diversity talent and generational shift; (9) Nutrition as a platform for innovation; and (10) Enabling strong impact on communities.

#### 4) Media and investments

- NEST has accelerated its digital media spending which is as high as 40.0% for some categories.
- NEST has focused on brand-building investments instead of short-term promotions. In the case of Nescafe, short-term promotions now stand at ~10% of the total vs. 25.0% to 30.0% levels 7-8 years ago. This has resulted in a higher addition to cups consumed of Nescafe in the last 5 years vs. in the last 50 years. Between CY20 and CY23, NEST spent INR 26 Bn in capital investments. It has now committed INR 50 Bn capital spent over CY23 to CY25.

#### 5) Other highlights

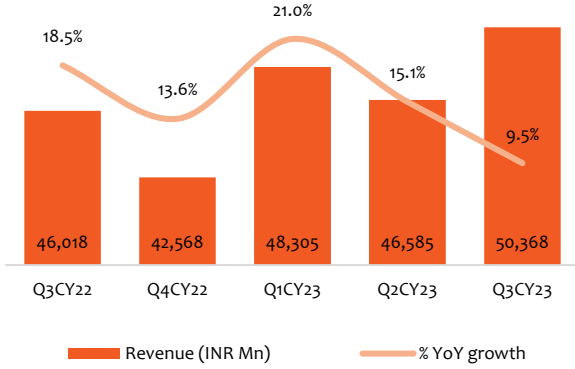
- For NEST, almost 1/3<sup>rd</sup> of the portfolio is price point sensitive, 15.0% to 20.0% is premium and the rest is mainstream. The price index of price point packs is ~10.0% to 20.0% lower than mainstream and that of premium is ~30.0% to 40.0% higher than mainstream.
- The growth rate of the premium portfolio is 2.0x to 2.5x of overall growth.
- The integration of the Pet Care business is complete and NEST is now working on expanding distribution and working on synergies. The early response for cat food is very positive and NEST is confident of accelerating this business going ahead.
- NEST's royalty agreement with the parent is up for renewal in June 2024. The terms of a new agreement are still under discussion.
- The Board of Directors have approved the alteration in the share capital of the Company by the split of existing equity shares having a face value of INR 10/- each, fully paid up, into 10 equity shares having a face value of INR 1/- each fully paid-up. This is subject to the approval of Members of the Company and a record date is yet to be fixed.
- The Board of Directors have declared a second interim dividend for CY23 of INR 140/- per equity share (Face value INR 10/- per equity share). This is in addition to the first interim dividend of INR 27/- per equity share paid on 8th May 2023.

### Valuation and view

NEST has seen one of the higher growth rates among FMCG companies as it continues to benefit from distribution expansion, especially in rural India. The revenue growth is broad-based across segments and geographies. Further sustainability of growth is expected from innovation, higher capex plans coming on stream over the next couple of years, continued thrust on RURBAN strategy and higher media investments. NEST has also reported strong margin performance in the quarter, and will continue to focus on profitability along with topline growth. Premiumization will also be an important driver of growth and profitability improvement. The stock price is likely to get a boost post the stock split, as higher liquidity and a lower price point per share will increase the shareholder base. We revise our CY23E/ CY24E Adj. EPS by -0.9%/ +0.5%, respectively and introduce CY25E estimates. While NEST will shift to an April-March reporting year, we continue to build 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 13.0%/ 17.3%/ 18.2%, respectively over CY22-CY25E. The stock is currently trading at 75.7x/ 65.0x/ 58.0x our CY23E/ CY24E/ CY25E Adj. EPS. **We apply P/E of 63.0x (66.0x earlier) as we roll over our valuation to CY25E EPS of INR 414.5 and arrive at a target price of INR 26,111 per share (INR 24,300 earlier) with an upside potential of 8.5% from the CMP. Accordingly, we maintain our "ACCUMULATE" recommendation on the shares of Nestle India.**

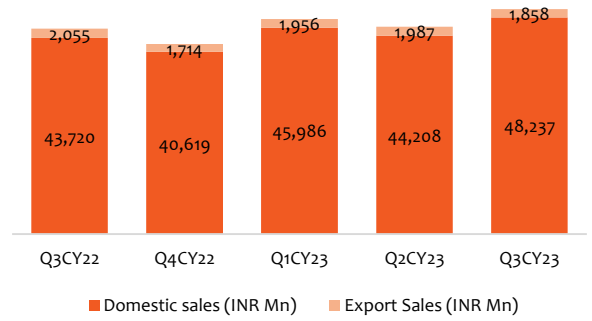
Nestle India Ltd.

Revenue growth dips to high single digits



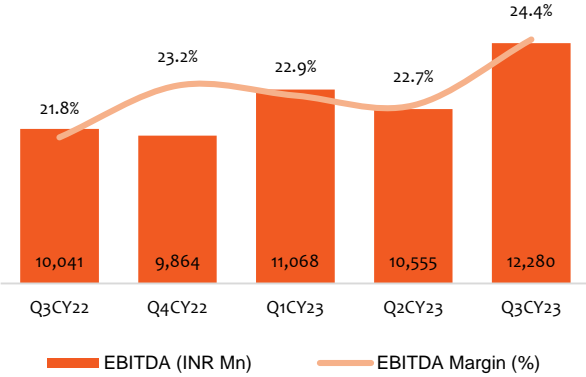
Source: Company, KRChoksey Research

Domestic and export revenue



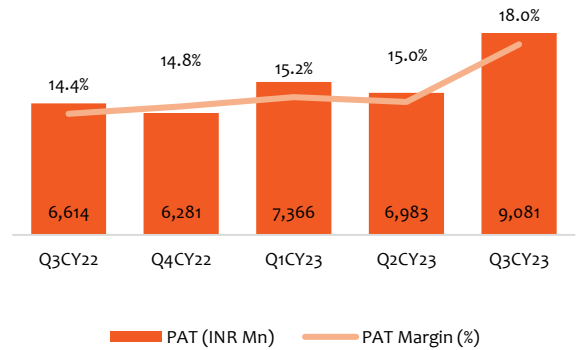
Source: Company, KRChoksey Research

EBITDA margin expands sequentially



Source: Company, KRChoksey Research

PAT margin uptick



Source: Company, KRChoksey Research

## Nestle India Ltd.

### KEY FINANCIALS

Particulars (INR Mn)	Q3CY23	Q2CY23	Q3CY22	QoQ	YoY	9MCY23	9MCY22	YoY
<b>Sales</b>	<b>50,368</b>	<b>46,585</b>	<b>46,018</b>	<b>8.1%</b>	<b>9.5%</b>	<b>1,45,259</b>	<b>1,26,402</b>	<b>14.9%</b>
<b>Total Expenditure</b>	<b>38,089</b>	<b>36,030</b>	<b>35,978</b>	<b>5.7%</b>	<b>5.9%</b>	<b>1,11,356</b>	<b>98,846</b>	<b>12.7%</b>
Cost of Raw Materials	19,173	19,775	19,528	-3.0%	-1.8%	60,774	56,461	7.6%
Purchase of Stock	1,018	1,085	798	-6.2%	27.5%	3,102	2,531	22.6%
Changes in Inventories	1,725	191	1,452	804.6%	18.8%	1,405	-708	-298.5%
Employee Cost	5,176	4,572	4,200	13.2%	23.2%	14,291	12,285	16.3%
Other Expenses	10,997	10,407	10,000	5.7%	10.0%	31,784	28,277	12.4%
<b>EBITDA</b>	<b>12,280</b>	<b>10,555</b>	<b>10,041</b>	<b>16.3%</b>	<b>22.3%</b>	<b>33,903</b>	<b>27,556</b>	<b>23.0%</b>
<b>EBITDA Margins (%)</b>	<b>24.4%</b>	<b>22.7%</b>	<b>21.8%</b>	<b>172 bps</b>	<b>256 bps</b>	<b>23.3%</b>	<b>21.8%</b>	<b>154 bps</b>
Depreciation	1,112	1,074	982	3.5%	13.2%	3,202	3,044	5.2%
<b>EBIT</b>	<b>11,168</b>	<b>9,482</b>	<b>9,059</b>	<b>17.8%</b>	<b>23.3%</b>	<b>30,700</b>	<b>24,512</b>	<b>25.2%</b>
<b>EBIT Margins (%)</b>	<b>22.2%</b>	<b>20.4%</b>	<b>19.7%</b>	<b>182 bps</b>	<b>249 bps</b>	<b>21.1%</b>	<b>19.4%</b>	<b>174 bps</b>
Interest Expense	314	328	372	-4.3%	-15.6%	1012	1097	-7.8%
Other Income	333	240	306	38.9%	8.6%	909	715	27.2%
<b>PBT</b>	<b>11,187</b>	<b>9,393</b>	<b>8,994</b>	<b>19.1%</b>	<b>24.4%</b>	<b>30,598</b>	<b>24,129</b>	<b>26.8%</b>
Exceptional item	-1,033	0	0	NA	NA	-920	160	-674.9%
Tax	3,139	2,410	2,379	30.3%	32.0%	8,088	6,344	27.5%
<b>PAT</b>	<b>9,081</b>	<b>6,983</b>	<b>6,615</b>	<b>30.0%</b>	<b>37.3%</b>	<b>23,431</b>	<b>17,625</b>	<b>32.9%</b>
<b>PAT Margin (%)</b>	<b>18.0%</b>	<b>15.0%</b>	<b>14.4%</b>	<b>304 bps</b>	<b>366 bps</b>	<b>16.1%</b>	<b>13.9%</b>	<b>219 bps</b>
<b>EPS</b>	<b>94.2</b>	<b>72.4</b>	<b>68.6</b>	<b>30.0%</b>	<b>37.3%</b>	<b>243.0</b>	<b>182.8</b>	<b>32.9%</b>
<b>Adj. PAT</b>	<b>8,047</b>	<b>6,983</b>	<b>6,614</b>	<b>15.2%</b>	<b>21.7%</b>	<b>22,510</b>	<b>17,785</b>	<b>26.6%</b>
<b>Adj. PAT margin</b>	<b>16.0%</b>	<b>15.0%</b>	<b>14.4%</b>	<b>99 bps</b>	<b>160 bps</b>	<b>15.5%</b>	<b>14.1%</b>	<b>143 bps</b>
<b>Adj. EPS</b>	<b>83.5</b>	<b>72.4</b>	<b>68.6</b>	<b>15.2%</b>	<b>21.7%</b>	<b>233.5</b>	<b>184.5</b>	<b>26.6%</b>

Particulars (INR Mn)	CY21	CY22	CY23E	CY24E	CY25E
<b>Revenues</b>	<b>1,47,406</b>	<b>1,68,970</b>	<b>1,94,185</b>	<b>2,17,849</b>	<b>2,43,990</b>
COGS	63,482	77,499	86,570	95,396	1,06,734
<b>Gross profit</b>	<b>83,924</b>	<b>91,471</b>	<b>1,07,615</b>	<b>1,22,452</b>	<b>1,37,256</b>
Employee cost	15,299	16,355	19,134	21,395	23,785
Other expenses	32,949	37,697	42,450	47,491	53,064
<b>EBITDA</b>	<b>35,676</b>	<b>37,420</b>	<b>46,030</b>	<b>53,566</b>	<b>60,408</b>
<b>EBITDA Margin</b>	<b>24.2%</b>	<b>22.1%</b>	<b>23.7%</b>	<b>24.6%</b>	<b>24.8%</b>
Depreciation & amortization	3,910	4,030	4,316	5,613	6,869
<b>EBIT</b>	<b>31,766</b>	<b>33,390</b>	<b>41,715</b>	<b>47,953</b>	<b>53,539</b>
Other income	1,202	1,010	1,203	1,307	1,464
Interest expense	2,017	1,546	1,372	1,289	1,289
Exceptional items	2,377	294	-92	0	0
<b>PBT</b>	<b>28,573</b>	<b>32,560</b>	<b>41,637</b>	<b>47,971</b>	<b>53,713</b>
Tax	7,389	8,655	10,900	12,281	13,751
<b>PAT</b>	<b>21,184</b>	<b>23,905</b>	<b>30,737</b>	<b>35,690</b>	<b>39,963</b>
<b>Adj. PAT</b>	<b>23,561</b>	<b>24,200</b>	<b>30,645</b>	<b>35,690</b>	<b>39,963</b>
<b>EPS (INR)</b>	<b>219.7</b>	<b>247.9</b>	<b>318.8</b>	<b>370.2</b>	<b>414.5</b>
<b>Adj. EPS</b>	<b>244.4</b>	<b>251.0</b>	<b>317.8</b>	<b>370.2</b>	<b>414.5</b>

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	27,374	38,629	45,246	53,642
Net Cash Flow from/(used in) Investing Activities	(3,917)	(14,285)	(18,669)	(15,509)
Net Cash Flow from Financing Activities	(21,227)	(25,807)	(29,842)	(33,259)
Net Inc/Dec in cash equivalents	2,230	(1,463)	(3,264)	4,873
Opening Balance	7,185	9,266	7,803	4,538
Adjustment	(149)	0	0	0
<b>Closing Balance Cash and Cash Equivalents</b>	<b>9,266</b>	<b>7,803</b>	<b>4,538</b>	<b>9,412</b>

Source: Company, KRChoksey Research



**Nestle India Ltd.**

Balance Sheet (INR Mn)	CY21	CY22	CY23E	CY24E	CY25E
Property, plant and equipment	26,530	27,058	35,742	50,129	60,260
Capital work-in-progress	2,462	3,584	3,584	3,584	3,584
Right of use assets	3,417	3,379	3,544	3,544	3,544
Investments	7,107	5,602	4,262	4,262	4,262
Loans & other financial assets	492	558	612	612	612
Deferred tax assets	258	256	317	317	317
Other non-current assets	14,453	14,449	16,407	16,407	16,407
<b>Total non-current assets</b>	<b>54,720</b>	<b>54,886</b>	<b>64,466</b>	<b>78,853</b>	<b>88,984</b>
Inventories	15,927	19,288	21,545	23,742	26,564
Investments	633	2,174	3,795	3,795	3,795
Trade receivables	1,660	1,919	2,128	2,387	2,674
Cash and cash equivalents	7,185	9,266	7,803	4,538	9,412
Other Balances with Banks	169	190	185	185	185
Loans	107	103	102	102	102
Other financial assets	508	583	670	751	841
Current tax assets	1,434	1,381	1,587	1,780	1,994
<b>Total current assets</b>	<b>27,622</b>	<b>34,902</b>	<b>37,815</b>	<b>37,282</b>	<b>45,567</b>
<b>TOTAL ASSETS</b>	<b>82,341</b>	<b>89,787</b>	<b>1,02,281</b>	<b>1,16,135</b>	<b>1,34,551</b>
Equity share capital	964	964	964	964	964
Other equity	18,500	23,628	29,775	36,913	44,906
<b>Total equity</b>	<b>19,464</b>	<b>24,592</b>	<b>30,739</b>	<b>37,877</b>	<b>45,870</b>
Borrowings	275	267	267	267	267
Lease Liabilities	1,903	1,907	1,969	1,969	1,969
Provisions	32,853	32,052	36,835	41,323	46,282
Other non-current liabilities	200	174	199	224	251
<b>Total non-current liabilities</b>	<b>35,230</b>	<b>34,398</b>	<b>39,270</b>	<b>43,783</b>	<b>48,768</b>
Borrowings	66	34	34	34	34
Trade payables	17,482	19,338	21,602	23,804	29,242
Lease Liabilities	421	498	590	590	590
Other financial liabilities	6,588	6,680	5,613	5,613	5,613
Other current liabilities	1,703	2,640	2,519	2,519	2,189
Provisions	1,388	1,607	1,915	1,915	1,915
<b>Total current liabilities</b>	<b>27,647</b>	<b>30,798</b>	<b>32,272</b>	<b>34,475</b>	<b>39,913</b>
<b>Total liabilities</b>	<b>62,878</b>	<b>65,196</b>	<b>71,542</b>	<b>78,258</b>	<b>88,682</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>82,341</b>	<b>89,787</b>	<b>1,02,281</b>	<b>1,16,135</b>	<b>1,34,551</b>

Key Ratio		FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	24.2%	22.1%	23.7%	24.6%	24.8%
Tax rate (%)	25.9%	26.6%	26.2%	25.6%	25.6%
Net Profit Margin (%)	14.4%	14.1%	15.8%	16.4%	16.4%
RoE (%)	108.8%	97.2%	100.0%	94.2%	87.1%
RoCE (%)	160.4%	134.1%	134.4%	125.6%	116.0%
EPS (INR)	219.7	247.9	318.8	370.2	414.5
PE	111.4x	98.4x	95.8x	75.7x	65.0x

Source: Company, KRChoksey Research

## Nestle India Ltd.

Nestle India Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
30-Oct-23	24,057	26,111	ACCUMULATE
02-Aug-23	22,805	24,300	ACCUMULATE
26-Apr-23	20,756	23,000	ACCUMULATE
17-Feb-23	19,002	21,805	ACCUMULATE
20-Oct-22	19,800	21,805	ACCUMULATE
01-Aug-22	19,359	21,334	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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