

Q4FY24 Nestle India Ltd.



Nestle India Ltd.

Revenue growth continues to be in high single digits, margins at 12-quarter high

CMP INR 2,510*	Target INR 2,721	Potential Upside 8.4%	Market Cap (INR Mn) 24,14,732	Recommendation ACCUMULATE	Sector Consumer
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Result highlights

- NEST's overall performance for Q5FY24 was in-line with our estimates. While sales were marginally lower by 0.9%, EBITDA and Adj. PAT performance was as per expectations.
- The Board of Directors recommended a Final Dividend of INR 8.5/- per equity shares of INR 1/- each for the fifteen months FY ended 31st March 2024.
- NEST announced 2 new businesses- i) a JV with Dr. Reddy's to bring innovative nutraceutical brands to consumers in India, and ii) to sell Nespresso coffee machines and capsules in India.
- We have now revised our model to reflect estimates for FY ending March instead of CY ending December. We believe growth rates will remain in the high single-digit range in the near term. **We apply P/E of ~65x to FY26E EPS of INR 41.8 and arrive at a target price of INR 2,721 per share (unchanged) and maintain our "ACCUMULATE" rating.**

MARKET DATA

Shares O/S (Mn)	964
Net Worth (INR Mn)	33,409
Mkt Cap (INR Mn)	24,14,732
52 Wk H/L (INR)	2,769/ 2,100
Volume Avg (3m K)	996
Face Value (INR)	1
Bloomberg Code	NEST IN

KEY FINANCIALS

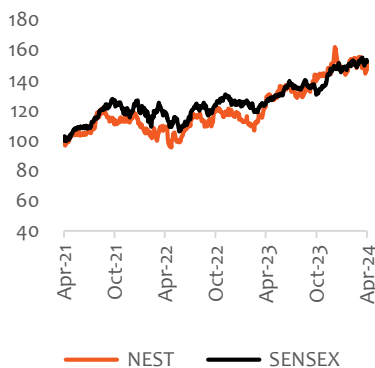
Particulars (INR Mn)	CY21	CY22	FY24*	FY25E	FY26E
Net Sales	147,406	168,970	243,939	216,746	241,643
EBITDA	35,676	37,420	58,498	52,384	59,889
PAT	21,184	23,905	39,328	35,234	40,304
Adj. PAT	23,561	24,200	39,584	35,234	40,304
EPS (INR)	22.0	24.8	40.8	36.5	41.8
Adj. EPS (INR)	24.4	25.1	41.1	36.5	41.8
EBITDA Margin (%)	24.2%	22.1%	24.0%	24.2%	24.8%
Adj. Net Profit Margin (%)	16.0%	14.3%	16.2%	16.3%	16.7%

Source: Company, KRChoksey Research

Historical EPS adjusted for 1:10 stock split in January 2024

* Due to a change in its reporting period, NEST has reported FY24 as fifteen months ending Mar-24.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	74,671
NIFTY	22,643

Continues to see healthy high-single digit topline growth

- NEST's revenue was INR 52,676 Mn, a growth of 9.0% YoY/ 14.5% QoQ, reporting one of the better growth rates among FMCG players in the quarter.
- The growth was led by a combination of pricing and mix, despite challenges posed by rising food inflation and volatile commodity prices.
- Domestic sales (95.6% revenue share) continued the trend of last few quarters and grew by 8.9% YoY/ 13.6% QoQ.
- Export sales (4.4% revenue share) grew at 19.0% YoY/ 43.9% QoQ, a strong performance after seeing YoY decline for the previous 2 quarters.

EBITDA margins at a 12-quarter high

- Gross margin expanded by 299 bps YoY but was lower by 181 bps QoQ, likely due to seasonality and prices of coffee and cocoa reaching all-time high levels.
- EBITDA grew by 22.0% YoY/ 21.7% QoQ to INR 13,501 Mn. EBITDA margin saw strong expansion of 272 bps YoY/ 151 bps QoQ to 25.6%.
- The sequential EBITDA margin expansion was delivered despite a contraction in gross margins, due to lower other expenses.
- The EBITDA margin crossed the 25.0% level for the first time after Q1CY21.
- PAT saw a strong growth of 26.8% YoY/ 42.5% QoQ to INR 9,342 Mn. Adjusting for exceptional items, Adj. PAT grew by 23.7% YoY/ 19.0% QoQ to INR 9,253 Mn.

SHARE HOLDING PATTERN (%)

Particulars	Mar-24	Dec-23	Sep-23
Promoters	62.8	62.8	62.8
FIIIs	12.1	12.1	12.1
DIIIs	9.0	9.2	9.3
Others	16.1	16.0	15.8
Total	100.0	100.0	100.0

*Based on previous closing

11.1%

Revenue CAGR between FY24
(12-month adj. basis) and
FY26E

12.1%

Adj. PAT CAGR between FY24
(12-month adj. basis) and
FY26E

Nestle India Ltd.

Key Result Highlights:

FY24 performance:

- **Confectionery** delivered a strong performance, fueled by KITKAT. India became the 2nd largest market globally for KITKAT.
- Confectionary growth was also fueled by the launch of new products, increased media exposure, expanding distribution network, and innovative brand activations.
- **Beverages saw robust performance.** NESCAFÉ Classic, NESCAFÉ Sunrise, and NESCAFÉ GOLD, delivered strong double-digit growth.
- NESCAFÉ has introduced its coffee to over 30 Mn households in India in the last 7 years with **highest-ever increase in household penetration and market share in 2023.**
- **Milk Products and Nutrition** witnessed **strong growth despite inflationary pressures.** Milkmaid and Ready-To- Drink (RTD) delivered strong growth.
- **Prepared Dishes and Cooking Aids** registered strong growth across portfolio led by Maggi Noodles and Maggi Masala-ae-Magic. Growth momentum was aided by strong consumer engagements, media campaigns, innovations and enhanced RURBAN penetration.
- In the **Petcare business**, strong focus on **e-commerce accelerated the reach** of the product portfolio to more pet families.

Channel-wise performance for FY24:

- E-commerce **growth accelerated in quick commerce** along with click and mortar due to brands like KitKat and Maggi Noodles. Quick Commerce growth was aided by **new user acquisition and targeted digital communication** across various touchpoints.
- Organized Trade growth continued to be strong. **Growth was broad-based** across categories **driven by store expansion and improved footfalls.**
- Growth in Out of Home (OOH) continued by focusing on relevant innovations and robust penetration in emerging channels. **Geographical expansion in Tier-1 towns, tapping tourist hot spots and focusing on geographical clusters also led to growth.**
- In exports, Maggi Noodles and sauces, **witnessed an increased demand in key markets** such as Canada, the United States, Australia, New Zealand, and Singapore. Nescafé Sunrise continued to gain traction in established markets such as Singapore and Taiwan and was exported to Canada for the first time.

RURBAN strategy:

- During FY24, NEST **expanded to cover over 200,000 villages.**

New launches:

- NEST launched Maggi Oats Noodles with Millet Magic, Korean Noodles, Maggi Teekha Masala and Maggi Chatpata Masala variants. India emerged as the largest market worldwide for MAGGI.

Commodity outlook:

- Prices of coffee and cocoa have reached all-time high levels and continue to rise.
- Cereals and grains are going through a structural cost increase due to MSP.
- Milk prices are expected to rise due to expectation of a harsh summer.

JV announcement:

- By leveraging its existing competencies and capabilities, and **by investing in new areas of opportunity**, NEST strives to **deliver long-term value** to its stakeholders.
- NEST has approved the execution of a definitive agreement **to form a joint venture with Dr. Reddy's Laboratories Limited** ("Dr. Reddy's") to bring together the well-known **global range of nutritional health solutions as well as vitamins, minerals and health supplements** of Nestlé Health Science with the nutraceuticals portfolios, strong and established commercial strengths of Dr. Reddy's in India and other geographies as may be agreed by the Parties.
- The JV will help JV Partners combine their strengths and grow their complementary nutraceuticals portfolios in categories such as metabolic, hospital nutrition, general wellness, women's health and child nutrition for consumers across India.
- The joint venture is expected to become **operational in Q2FY25E**, subject to customary closing conditions.
- Dr Reddy's will hold 51.0% and **NEST will hold 49.0% in the JV.** NEST will have **a call option to increase shareholding upto 60.0% after 6 years** at a Fair Market Value. Dr Reddy's shall continue to hold at least 40.0% of the shareholding after NEST exercises its call option.

Other highlights:

- NEST has also approved **the launch of Nespresso in India**, for the sale and distribution of Nespresso machines and capsules.
- In recent years, **coffee consumption in India has witnessed a surge**, with a discernible trend towards in-home consumption.
- The **first NESPRESSO boutique** will be opened in **Delhi**, before expanding to other key cities. Nespresso will also be **sold online** through e-commerce platforms.

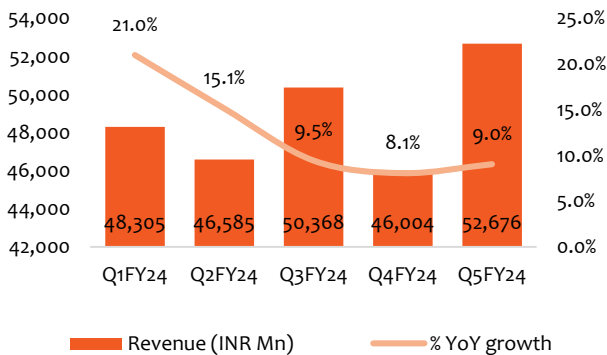
Nestle India Ltd.

Valuation and view

NEST's revenue growth has continued to be in the high-single digits in a weak macro environment, aided by distribution expansion in RURBAN markets. Pricing and mix have also contributed to the continued growth. We expect similar growth levels to continue in the near term while medium-term growth will be driven by a recovery in the demand environment, capacity augmentation and continued penetration expansion in lower-tier towns. Entry into new businesses such as pet care, neutraceuticals and Nesprossio in the last few quarters may pave the way for new growth avenues. Margins have strengthened to the highest levels seen in the last 3 years and will likely see stable/marginal expansion in margins from here. We remain positive on the medium to long-term prospects of NEST owing to distribution and capacity expansion. However, the controversy related to sugar content in infant cereal products may weigh on the stock in the near term.

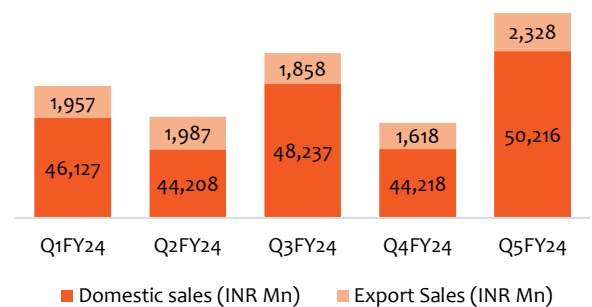
We have now revised our model to reflect estimates for FY ending March instead of CY ending December. We believe growth rates will remain in the high single-digit range in the near term, and any acceleration can only be seen in the later part of FY25E. We expect Revenue/ EBITDA/ Adj. PAT to grow at a CAGR of 11.1%/ 12.4%/ 12.1%, respectively over a normalized 12-month FY24 to FY26E. The stock is currently trading at 68.5x/ 59.9x our FY25E/ FY26E Adj. EPS. **We apply P/E of ~65x to FY26E EPS of INR 41.8 and arrive at a target price of INR 2,721 per share (unchanged) with an upside potential of 8.4% from the CMP. Accordingly, we maintain our "ACCUMULATE" recommendation on the shares of Nestle India.**

Revenue growth continues to be in high single digits



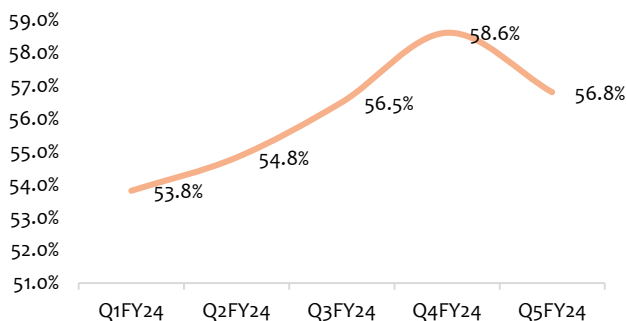
Source: Company, KRChoksey Research

Domestic growth continues to be healthy, exports see strong growth after 2 quarters of decline



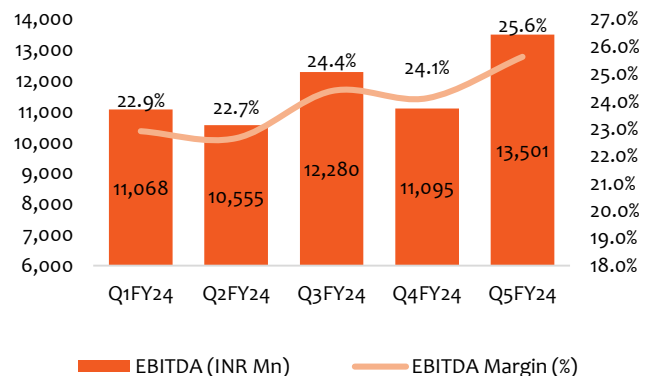
Source: Company, KRChoksey Research

Gross margin sees sequential decline



Source: Company, KRChoksey Research

EBITDA margin strengthens further



Source: Company, KRChoksey Research

Nestle India Ltd.

KEY FINANCIALS

Particulars (INR Mn)	Q5FY24 (3 months ending Mar-24)	Q4FY24 (3 months ending Dec-23)	Q1FY23 (3 months ending Mar-23)	QoQ	YoY	FY24 (15 month period ending Mar-24)	CY22 (12 month period ending Dec-22)	YoY
Sales	52,676	46,004	48,305	14.5%	9.0%	243,939	168,970	
Total Expenditure	39,175	34,909	37,238	12.2%	5.2%	185,441	131,550	
Cost of Raw Materials	21,619	19,775	21,827	9.3%	-0.9%	102,169	76,521	
Purchase of Stock	1,196	1,076	1,000	11.2%	19.7%	5,374	3,480	
Changes in Inventories	-57	-1,805	-511	96.9%	88.9%	-457	-2,503	
Employee Cost	4,869	4,201	4,543	15.9%	7.2%	23,361	16,355	
Other Expenses	11,548	11,663	10,380	-1.0%	11.3%	54,995	37,697	
EBITDA	13,501	11,095	11,068	21.7%	22.0%	58,498	37,420	
EBITDA Margins (%)	25.6%	24.1%	22.9%	151 bps	272 bps	24.0%	22.1%	
Depreciation	1,089	1,087	1,017	0.2%	7.1%	5,378	4,030	
EBIT	12,412	10,008	10,051	24.0%	23.5%	53,120	33,390	
EBIT Margins (%)	23.6%	21.8%	20.8%	181 bps	276 bps	21.8%	19.8%	
Interest Expense	262	230	370	14.2%	-29.2%	1455	1546	
Other Income	268	303	337	-11.7%	-20.6%	1480	1010	
PBT	12,417	10,081	10,018	23.2%	24.0%	53,145	32,854	
Exceptional item	-89	1,217	113	-107.3%	-178.3%	256	294	
Tax	3,164	2,309	2,538	37.1%	24.7%	13,560	8,655	
PAT	9,342	6,556	7,366	42.5%	26.8%	39,328	23,905	
PAT Margin (%)	17.7%	14.3%	15.2%	348 bps	248 bps	16.1%	14.1%	
EPS	9.7	6.8	7.6	42.5%	26.8%	40.8	24.8	
Adj. PAT	9,253	7,773	7,479	19.0%	23.7%	39,584	24,200	
Adj. PAT margin	17.6%	16.9%	15.5%	67 bps	208 bps	16.2%	14.3%	
Adj. EPS	9.6	8.1	7.8	19.0%	23.7%	41.1	25.1	

NA due to a change in reporting period from CY to FY, leading to FY24 being a 15-month period.

Source: Company, KRChoksey Research

* Due to a change in its reporting period from CY ending December to FY ending March, NEST has reported FY24 as a fifteen month period from Jan-23 to Mar-24. Accordingly, the current results for the quarter ending Mar-24 are for Q5FY24.

Particulars (INR Mn)	CY21	CY22	FY24*	FY25E	FY26E
Revenues	147,406	168,970	243,939	216,746	241,643
COGS	63,482	77,499	107,086	95,169	105,503
Gross profit	83,924	91,471	136,853	121,578	136,140
Employee cost	15,299	16,355	23,361	20,605	23,707
Other expenses	32,949	37,697	54,995	48,589	52,544
EBITDA	35,676	37,420	58,498	52,384	59,889
EBITDA Margin	24.2%	22.1%	24.0%	24.2%	24.8%
Depreciation & amortization	3,910	4,030	5,378	5,333	6,451
EBIT	31,766	33,390	53,120	47,051	53,438
Other income	1,202	1,010	1,480	1,498	1,933
Interest expense	2,017	1,546	1,455	1,445	1,489
Exceptional items	2,377	294	256	0	0
PBT	28,573	32,560	52,889	47,104	53,882
Tax	7,389	8,655	13,560	11,870	13,578
PAT	21,184	23,905	39,328	35,234	40,304
Adj. PAT	23,561	24,200	39,584	35,234	40,304
EPS (INR)	22.0	24.8	40.8	36.5	41.8
Adj. EPS	24.4	25.1	41.1	36.5	41.8

Source: Company, KRChoksey Research

Historical EPS adjusted for 1:10 stock split in January 2024

* Due to a change in its reporting period from CY ending December to FY ending March, NEST has reported FY24 as a fifteen month period from Jan-23 to Mar-24.

Particulars (INR Mn)	CY22	CY23	FY24*	FY25E	FY26E
Net Cash Generated From Operations	22,360	27,374	41,748	34,793	52,378
Net Cash Flow from/(used in) Investing Activities	(19,203)	(3,917)	(12,374)	(8,519)	(9,224)
Net Cash Flow from Financing Activities	(20,200)	(21,227)	(31,349)	(29,630)	(33,732)
Net Inc/Dec in cash equivalents	(17,043)	2,230	(1,976)	(3,356)	9,422
Opening Balance	17,548	7,185	9,266	7,589	4,233
Adjustment	6,680	(149)	299	0	0
Closing Balance Cash and Cash Equivalents	7,185	9,266	7,589	4,233	13,655

Source: Company, KRChoksey Research

* Due to a change in its reporting period from CY ending December to FY ending March, NEST has reported FY24 as a fifteen month period from Jan-23 to Mar-24.

Nestle India Ltd.

Balance Sheet (INR Mn)	CY22	CY23	FY24*	FY25E	FY26E
Property, plant and equipment	26,530	27,058	30,557	45,224	49,946
Capital work-in-progress	2,462	3,584	17,417	7,417	7,417
Right of use assets	3,417	3,379	4,046	4,046	4,046
Investments	7,107	5,602	4,239	4,239	4,239
Loans & other financial assets	492	558	645	645	645
Deferred tax assets	258	256	0	0	0
Other non-current assets	14,453	14,449	13,380	13,380	13,380
Total non-current assets	54,720	54,886	70,283	74,951	79,673
Inventories	15,927	19,288	20,894	23,211	25,731
Investments	633	2,174	400	400	400
Trade receivables	1,660	1,919	3,005	2,375	2,648
Cash and cash equivalents	7,185	9,266	7,589	4,233	13,655
Other Balances with Banks	169	190	200	200	200
Loans	107	103	110	110	110
Other financial assets	508	583	463	647	721
Current tax assets	1,434	1,381	2,288	3,098	3,454
Total current assets	27,622	34,902	34,947	34,273	46,918
TOTAL ASSETS	82,341	89,787	105,231	109,224	126,591
Equity share capital	964	964	964	964	964
Other equity	18,500	23,628	32,445	39,491	47,552
Total equity	19,464	24,592	33,409	40,456	48,516
Borrowings	275	267	255	262	262
Lease Liabilities	1,903	1,907	2,559	2,559	2,559
Deferred tax liabilities, (net)	0	0	120	120	120
Provisions	32,853	32,052	29,172	25,920	28,897
Other non-current liabilities	200	174	155	137	153
Total non-current liabilities	35,230	34,398	32,261	28,999	31,992
Borrowings	66	34	57	52	52
Trade payables	17,482	19,338	22,379	22,591	28,905
Lease Liabilities	421	498	575	575	575
Other financial liabilities	6,588	6,680	11,783	11,783	11,783
Other current liabilities	1,703	2,640	2,151	2,151	2,151
Provisions	1,388	1,607	2,616	2,616	2,616
Total current liabilities	27,647	30,798	39,561	39,769	46,082
Total liabilities	62,878	65,196	71,822	68,768	78,074
TOTAL EQUITY AND LIABILITIES	82,341	89,787	105,231	109,223	126,591

Source: Company, KRChoksey Research

* Due to a change in its reporting period from CY ending December to FY ending March, NEST has reported FY24 as a fifteen-month period from Jan-23 to Mar-24.

Key Ratio	CY22	CY23	FY24	FY25E	FY26E
EBITDA Margin (%)	24.2%	22.1%	24.0%	24.2%	24.8%
Tax rate (%)	25.9%	26.6%	25.6%	25.2%	25.2%
Net Profit Margin (%)	14.4%	14.1%	16.1%	16.3%	16.7%
RoE (%)	108.8%	97.2%	117.7%	87.1%	83.1%
RoCE (%)	160.4%	134.1%	157.5%	115.4%	109.4%
EPS (INR)	22.0	24.8	40.8	36.5	41.8
PE	102.5x	99.8x	61.0x	68.5x	59.9x

Source: Company, KRChoksey Research

Historical EPS adjusted for 1:10 stock split in January 2024

* Due to a change in its reporting period from CY ending December to FY ending March, NEST has reported FY24 as a fifteen-month period from Jan-23 to Mar-24.

Nestle India Ltd.

Nestle India Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
30-Apr-24	2,510	2,721	ACCUMULATE
19-Feb-24	2,486	2,721	ACCUMULATE
27-Oct-23	2,406	2,611	ACCUMULATE
02-Aug-23	2,281	2,430	ACCUMULATE
26-Apr-23	2,076	2,300	ACCUMULATE
17-Feb-23	1,900	2,181	ACCUMULATE

Note: Historical CMP and TP adjusted for 1:10 stock split in January 2024

ANALYST CERTIFICATION:

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