

BUY

TP: Rs 22,860 | ▲ 20%

NESTLE INDIA

Consumer Staples

31 March 2023

Annual report highlights: Stellar performance in a difficult year

- Highest domestic revenue growth in a decade, at 14.8% in CY22, led by both volumes and pricing
- Broad-based uptick across product categories and geographies; investment in digital channels driving efficiency
- Innovation, premiumisation and product launches remain key elements of growth; maintain BUY, TP Rs 22,860

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Key takeaways from our analysis of NEST's 2022 annual report:

Strong double-digit growth: NEST outperformed in a year marked by a series of adversities and recorded its highest double-digit growth in a decade, aided by higher volumes and price hikes. During CY22, domestic sales grew 14.8% with a healthy balance of pricing and volumes. Export sales increased 8.2%. Growth was secular across confectionery, beverages, milk products & nutrition, and the prepared dishes & cooking aids portfolio. NEST's performance stood out in a year beset by economic uncertainty, unprecedented inflation in key raw materials, weak consumer sentiment and a prolonged slowdown in rural markets.

Innovation and premiumisation remain growth engines: Innovation remains an important element of growth and the driving force behind a diversified portfolio of strong brands. In the past seven years, NEST has introduced 110 new products and ~30 more are in the pipeline. Premiumisation is one of the growth engines that the company expects will lead to future acceleration of the business. To this end, NEST acquired Purina Petcare that delivers nutrition to pets and launched the globally renowned Gerber cereals catering to the nutrition needs of toddlers.

Digital investments to drive growth: In CY22, NEST launched its first ever direct-to-consumer (D2C) platform, www.mynestle.in, that offers products manufactured by it in India. The company continued to scale up digital capabilities during the year with a focus on data and analytics-led decision-making that enabled it to anticipate trends and launch new product variants. NEST launched the platform in Delhi-NCR and will subsequently expand to consumers in other parts of the country.

Maintain BUY: NEST's strategy of market penetration-led volume growth is yielding results. We expect the company's thrust on building volumes, deepening rural and semiurban reach, product innovation and premiumisation to fuel its growth momentum. The stock is trading at 63.8x/55.8x CY23E/CY24E EPS. We maintain BUY and continue to value the stock at 67x CY24E EPS, in line with the long-term mean, translating to an unchanged TP of Rs 22,860.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NEST IN/Rs 19,053
Market cap	US\$ 22.3bn
Free float	37%
3M ADV	US\$ 12.4mn
52wk high/low	Rs 21,050/Rs 16,000
Promoter/FPI/DII	63%/12%/25%

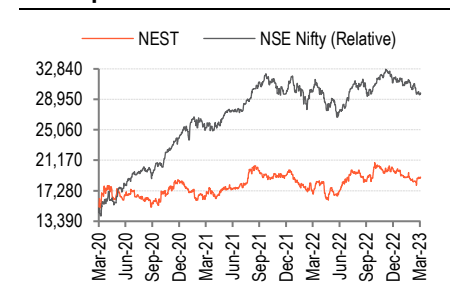
Source: NSE | Price as of 29 Mar 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	1,68,969	1,85,923	2,05,890
EBITDA (Rs mn)	37,125	44,859	51,879
Adj. net profit (Rs mn)	23,905	28,775	32,897
Adj. EPS (Rs)	247.9	298.5	341.2
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	99.2	96.7
Adj. P/E (x)	76.8	63.8	55.8
EV/EBITDA (x)	49.5	40.9	35.4
Adj. EPS growth (%)	1.5	20.4	14.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



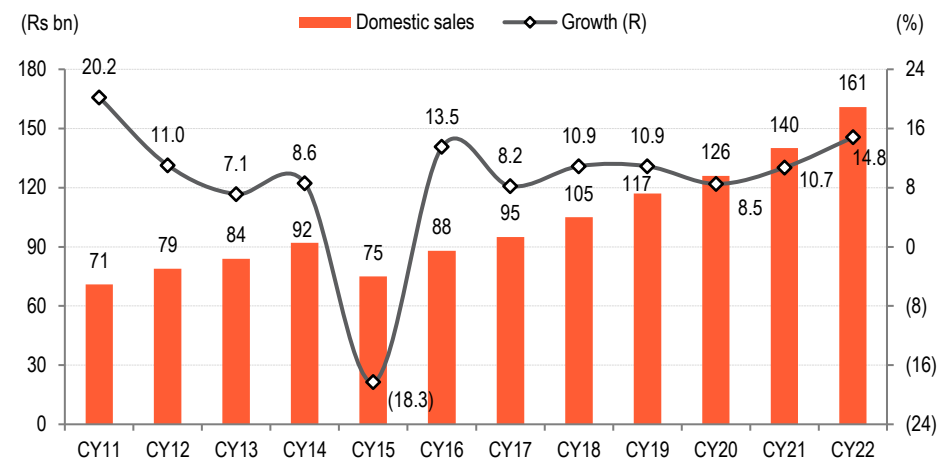
Annual report takeaways

Strong performance in a challenging year

Despite sector-wide headwinds, NEST reported strong domestic growth in CY22, driven by scale, pricing, product mix and efficiency. Domestic sales grew 14.8% with a broad-based performance across categories. Prepared dishes and cooking aids (contributing 32.2% to sales) grew by 15.6% YoY, milk products and nutrition (40.4%) grew 9.5%, confectionery (16.0%) grew 25%, and beverages (11.4%) were up 19.2% in CY22.

In CY22, the company’s exports business registered strong growth, with products from prepared dishes and cooking aids witnessing a demand uptick in key markets such as Canada, the US, Australia, New Zealand, and Singapore. The confectionery business performed well in the Middle East and coffee brand Nescafe Sunrise continued to gain traction in Singapore and Taiwan.

Fig 1 – A decade of strong domestic sales growth



Source: Company, BOBCAPS Research

E-commerce growing steadily

Contribution from e-commerce to total domestic revenue is improving year on year for NEST – from just 0.6% in CY16 to 6.5% in CY22 – fuelled by quick commerce (orders delivered within the hour) and click & mortar (online and offline operations). In CY22, e-commerce revenue increased 41% YoY. NEST’s out-of-home (OOH) business also made a strong comeback, recovering to its pre-Covid base.

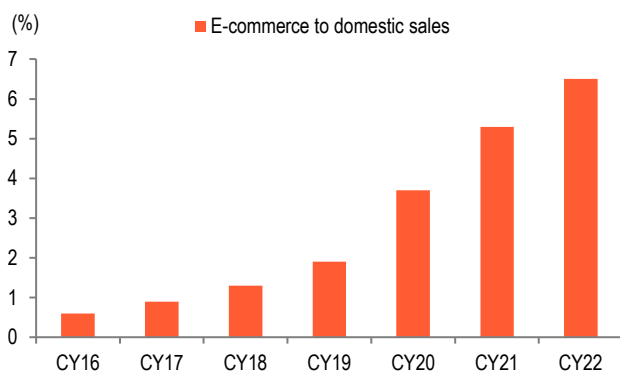
A strong performance from the prepared dishes & cooking aids portfolio, as well as coffee & beverages and confectionery portfolios, is driving growth in e-commerce channels. Quick commerce and click & mortar were other enablers, with growth in the former fuelled by new user acquisition initiatives taken by the company through targeted digital communication.

RURBAN strategy starts yielding results

NEST has continued to sharpen its focus on market penetration by increasing distribution points, steadily pursuing rural and semiurban (RURBAN) markets, and piloting the 'Swabhimaan' project to empower rural women through entrepreneurship. RURBAN growth has remained in double digits over the last five years but saw a slight moderation in CY22.

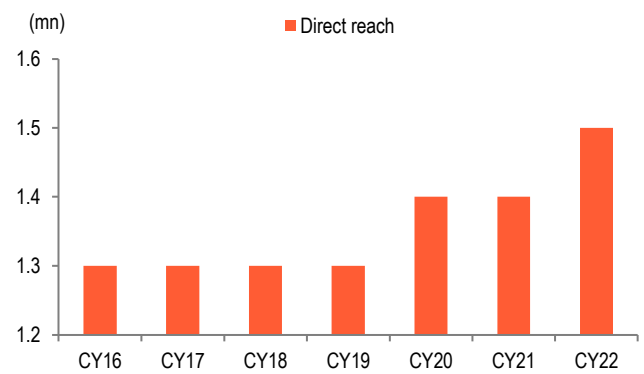
The company continues to deepen its rural reach. As of CY22, it has reached 91,000+ villages with 2,000+ population vs. ~41,000 in CY20. The target is to reach 120,000 villages with 2,000+ population by CY24-end. Total village coverage has increased to ~165,000 in CY22 from ~69,000 in CY20. Distribution touchpoints in RURBAN markets have risen to 14,000+ in CY22 from 10,000 in CY20.

Fig 2 – Growing revenue contribution from e-commerce



Source: Company, BOBCAPS Research

Fig 3 – Increasing direct distribution reach



Source: Company, BOBCAPS Research

New product launches remain key for growth

During the year, NEST launched the globally renowned 'Gerber' brand in India (in two variants – spinach & carrot and mango & berry). The company also expanded its confectionary portfolio by introducing the 'Kitkat Moodbreaks' range (mixed-fruit and mango flavours), besides embarking on millet sales via the launch of products under three brands – 'Ceregrow', 'A+', and 'Maggi'. It further entered the petcare food segment by acquiring the pet food business from Purina Petcare India.

Focus on sustainability

NEST is committed to protecting and restoring natural resources by accelerating sustainability efforts in areas such as climate, packaging, sourcing, and water. From CY07 to CY22, the company reduced the use of energy by ~36% and water by ~51%, generation of wastewater by ~38% and specific direct greenhouse gas emissions by 52%.

Valuation methodology

NEST's strategy of market penetration-led volume growth is yielding results. The company aims to drive market share gains by expediting its rural distribution strategy and keeping consumers engaged through novel product offerings. We expect sustained growth momentum led by continued investments in innovation and premiumisation, expansion of direct reach with a focus on rural markets, and forays into new categories.

The stock is trading at 63.8x/55.8x CY23E/CY24E EPS. We maintain BUY and continue to value NEST at 67x CY24E EPS, in line with the stock's long-term mean, translating to an unchanged TP of Rs 22,860.

Key risks

Key downside risks to our estimates are:

- continued rise in food inflation, and
- slowdown in rural markets.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	12.5	4,276	5,623	BUY
Godrej Consumer Products	GCPL IN	12.0	966	1,112	BUY
Hindustan Unilever	HUVR IN	81.6	2,531	3,069	BUY
ITC	ITC IN	57.8	383	459	BUY
Nestle India	NEST IN	22.3	19,053	22,860	BUY
Tata Consumer Products	TATACONS IN	7.9	698	924	BUY

Source: BOBCAPS Research, NSE | Price as of 29 Mar 2023

Financials

Income Statement

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Total revenue	1,33,500	1,47,406	1,68,969	1,85,923	2,05,890
EBITDA	32,015	35,664	37,125	44,859	51,879
Depreciation	3,704	3,910	4,030	5,166	6,766
EBIT	28,311	31,754	33,095	39,693	45,113
Net interest inc./(exp.)	(1,642)	(2,017)	(1,546)	(2,132)	(2,132)
Other inc./(exp.)	1,459	1,202	1,010	1,116	1,235
Exceptional items	0	2,365	0	0	0
EBT	28,128	28,573	32,560	38,677	44,216
Income taxes	7,304	7,389	8,655	9,901	11,319
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	20,824	21,184	23,905	28,775	32,897
Adjustments	0	2,365	0	0	0
Adjusted net profit	20,824	23,549	23,905	28,775	32,897

Balance Sheet

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Accounts payables	15,166	17,482	19,338	22,533	24,337
Other current liabilities	1,588	1,703	2,310	2,310	2,310
Provisions	33,742	34,240	33,659	43,044	47,494
Debt funds	348	341	300	300	300
Other liabilities	7,959	9,112	9,589	9,667	9,694
Equity capital	964	964	964	964	964
Reserves & surplus	19,229	18,500	23,627	28,030	33,064
Shareholders' fund	20,193	19,464	24,592	28,995	34,028
Total liab. and equities	78,997	82,341	89,787	1,06,849	1,18,164
Cash and cash eq.	17,548	7,185	9,266	13,000	7,015
Accounts receivables	1,649	1,660	1,919	2,038	2,256
Inventories	14,165	15,927	19,288	20,634	22,286
Other current assets	976	1,942	1,963	2,211	2,449
Investments	14,638	7,740	7,775	7,775	7,775
Net fixed assets	19,680	26,530	27,058	34,892	48,125
CWIP	6,386	2,462	3,584	3,584	3,584
Intangible assets	0	0	0	0	0
Deferred tax assets, net	199	258	256	256	256
Other assets	3,756	18,638	18,679	22,460	24,418
Total assets	78,997	82,341	89,787	1,06,849	1,18,164

Cash Flows

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Cash flow from operations	24,545	22,360	27,374	45,826	44,706
Capital expenditures	(4,784)	(7,348)	(5,499)	(13,000)	(20,000)
Change in investments	20	(13,523)	1,288	1,475	0
Other investing cash flows	1,549	1,668	294	(2,587)	(695)
Cash flow from investing	(3,215)	(19,203)	(3,917)	(14,112)	(20,695)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(602)	0	0	0	0
Interest expenses	(90)	(917)	(980)	(2,132)	(2,132)
Dividends paid	(18,898)	(19,283)	(20,247)	(24,373)	(27,863)
Other financing cash flows	31	0	0	0	0
Cash flow from financing	(19,559)	(20,200)	(21,227)	(26,504)	(29,995)
Chg in cash & cash eq.	1,771	(17,043)	2,229	5,209	(5,985)
Closing cash & cash eq.	17,548	7,102	7,791	13,000	7,015

Per Share

Y/E 31 Dec (Rs)	CY20A	CY21A	CY22A	CY23E	CY24E
Reported EPS	216.0	222.5	247.9	298.5	341.2
Adjusted EPS	216.0	244.2	247.9	298.5	341.2
Dividend per share	196.0	200.0	210.0	252.8	289.0
Book value per share	209.4	201.9	255.1	300.7	352.9

Valuations Ratios

Y/E 31 Dec (x)	CY20A	CY21A	CY22A	CY23E	CY24E
EV/Sales	13.8	12.5	10.9	9.9	8.9
EV/EBITDA	57.4	51.5	49.5	40.9	35.4
Adjusted P/E	88.2	78.0	76.8	63.8	55.8
P/BV	91.0	94.4	74.7	63.4	54.0

DuPont Analysis

Y/E 31 Dec (%)	CY20A	CY21A	CY22A	CY23E	CY24E
Tax burden (Net profit/PBT)	74.0	74.1	73.4	74.4	74.4
Interest burden (PBT/EBIT)	99.4	90.0	98.4	97.4	98.0
EBIT margin (EBIT/Revenue)	21.2	21.5	19.6	21.3	21.9
Asset turnover (Rev./Avg TA)	169.0	179.0	188.2	174.0	174.2
Leverage (Avg TA/Avg Equity)	3.9	4.2	3.7	3.7	3.5
Adjusted ROAE	103.1	108.8	97.2	99.2	96.7

Ratio Analysis

Y/E 31 Dec	CY20A	CY21A	CY22A	CY23E	CY24E
YoY growth (%)					
Revenue	7.9	10.4	14.6	10.0	10.7
EBITDA	10.8	11.4	4.1	20.8	15.6
Adjusted EPS	4.4	13.1	1.5	20.4	14.3
Profitability & Return ratios (%)					
EBITDA margin	24.0	24.2	22.0	24.1	25.2
EBIT margin	21.2	21.5	19.6	21.3	21.9
Adjusted profit margin	15.6	16.0	14.1	15.5	16.0
Adjusted ROAE	103.1	108.8	97.2	99.2	96.7
ROCE	137.8	160.3	133.0	135.5	131.4
Working capital days (days)					
Receivables	5	4	4	4	4
Inventory	91	92	91	92	92
Payables	98	101	91	100	100
Ratios (x)					
Gross asset turnover	2.8	2.4	6.2	5.3	4.3
Current ratio	1.7	1.0	1.1	1.2	1.0
Net interest coverage ratio	17.2	15.7	21.4	18.6	21.2
Adjusted debt/equity	1.7	1.7	1.2	1.0	0.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

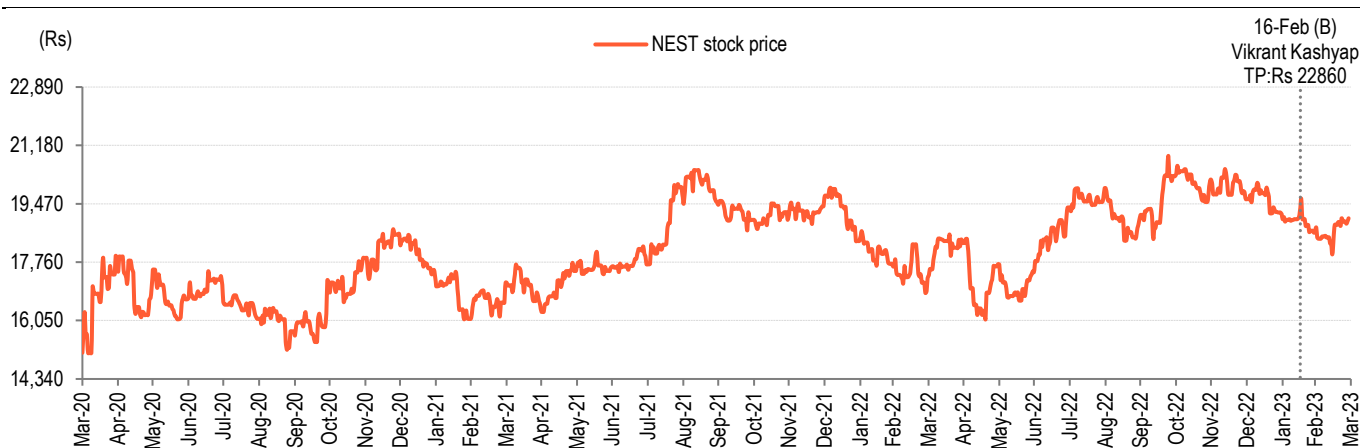
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): NESTLE INDIA (NEST IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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