

BUY

TP: Rs 24,670 | ▲ 19%

NESTLE INDIA

| Consumer Staples

| 25 April 2023

Stellar performance; beats estimates

- Highest quarterly growth in the last decade supported by a strong performance across product segments in Q1CY23
- Margins impacted by inflation in agri-commodities, partly offset by better realisations; early signs of softening in key inputs
- CY23-CY24 EPS raised 6-8% on a strong Q1, translating to a revised TP of Rs 24,670 (vs. Rs 22,860); maintain BUY

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Growth at a decadal high: NEST’s domestic revenue registered healthy growth of 21% YoY in Q1CY23 with a good balance between volume growth and pricing. Export revenue grew 25% YoY. In the past four quarters, NEST has delivered double-digit growth across product segments. Q1CY23 marks the highest quarterly growth for the company in the last 10 years (excluding the exceptional quarter in 2016 on a low base of 2015). NEST’s increased focus on enhancing its rural footprint has started yielding results. During the quarter, the company registered strong volume-led growth in rural markets.

Strong performance across portfolios: The prepared dishes and cooking aids business continued its growth momentum in Q1 and delivered strong growth across products. Confectionary posted robust growth as well, led by *Kitkat* and *Munch* which were backed by strong consumer engagement, media campaigns and innovation. NEST gained market share and delivered high growth in the beverages business driven by *Nescafe Classic*, *Nescafe Sunrise*, and *Nescafe Gold*.

Margins impacted by cost inflation: NEST’s gross profit margin contracted by 110bps QoQ/160bps YoY to 54.9% in Q1CY23 owing to inflation in agricultural commodities. Prices of milk and its derivatives, wheat flour and edible oil were relatively higher during the quarter and only partly offset by better realisations. EBITDA margin at 22.7% contracted 20bps QoQ and 50bps YoY.

Maintain BUY: The stock is trading at 65.1x/56.2x CY23E/CY24E EPS. We raise our CY23/CY24 EPS estimates 6%/8% to bake in the stellar Q1 print, leading to a new TP of Rs 24,670 (vs. Rs 22,860). Our target is set at an unchanged P/E of 67x on CY24E EPS, in line with the long-term mean. We reiterate BUY as NEST continues to outperform peers in a challenging economic climate supported by strong consumer engagement, new launches, and a strategy of penetration-led volume growth. We expect sustained growth momentum underpinned by investments in innovation and premiumisation, direct reach expansion with a rural focus, and forays into newer categories.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	NEST IN/Rs 20,665
Market cap	US\$ 24.3bn
Free float	37%
3M ADV	US\$ 15.5mn
52wk high/low	Rs 21,050/Rs 16,000
Promoter/FPI/DII	63%/12%/25%

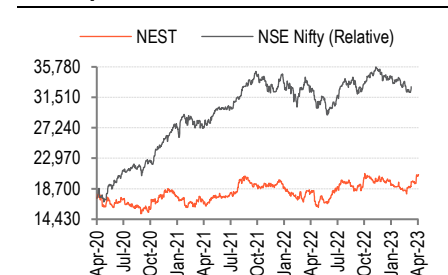
Source: NSE | Price as of 25 Apr 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	1,68,969	1,95,111	2,19,525
EBITDA (Rs mn)	37,125	47,122	55,300
Adj. net profit (Rs mn)	23,905	30,654	35,503
Adj. EPS (Rs)	247.9	317.9	368.2
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	104.7	102.3
Adj. P/E (x)	83.3	65.0	56.1
EV/EBITDA (x)	53.7	42.3	36.0
Adj. EPS growth (%)	1.5	28.2	15.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

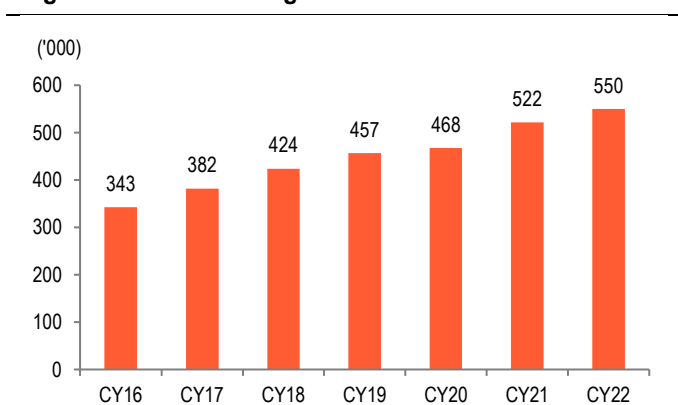


Fig 1 – Quarterly performance

(Rs mn)	Q1CY23	Q4CY22	Q1CY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	48,305	42,568	39,807	13.5	21.3	44,154	9.4
EBIDTA	10,955	9,730	9,247	12.6	18.5	10,420	5.1
Adj. PAT	7,366	6,281	5,947	17.3	23.9	6,592	11.7
Gross Margin (%)	53.8	54.9	54.4	(110bps)	(160bps)	55.2	(140bps)
EBITDA Margin (%)	22.7	22.9	23.2	(20bps)	(50bps)	23.6	(90bps)
Adj. PAT Margin (%)	15.3	14.8	14.9	50bps	31bps	14.9	35bps

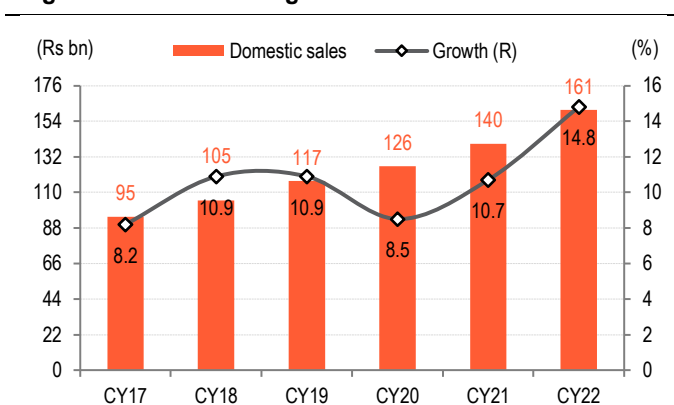
Source: Company, BOBCAPS Research

Fig 2 – Annual volume growth



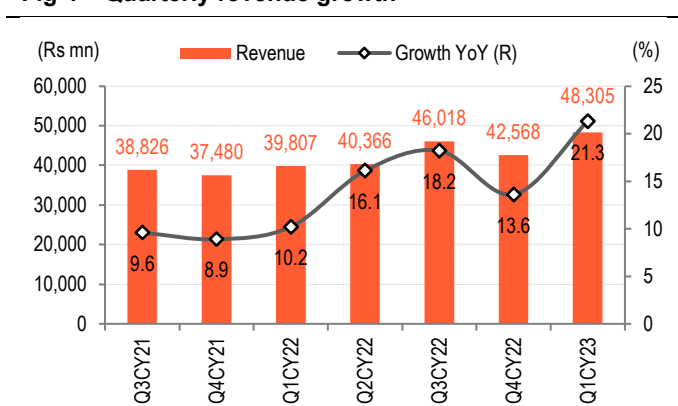
Source: Company, BOBCAPS Research

Fig 3 – Domestic sales growth



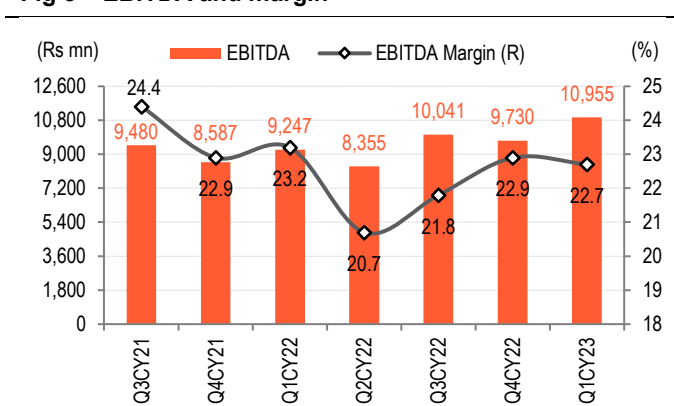
Source: Company, BOBCAPS Research

Fig 4 – Quarterly revenue growth



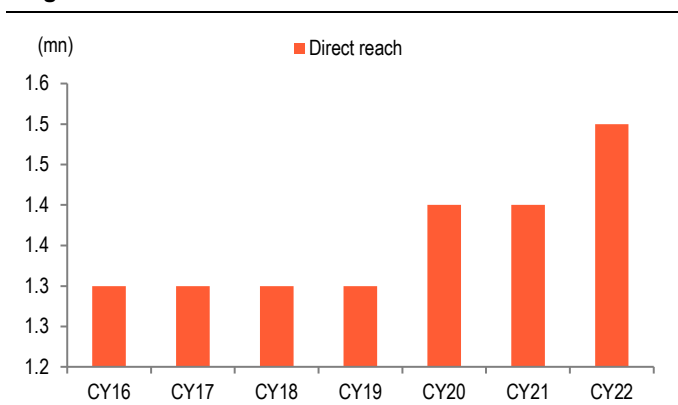
Source: Company, BOBCAPS Research

Fig 5 – EBITDA and margin



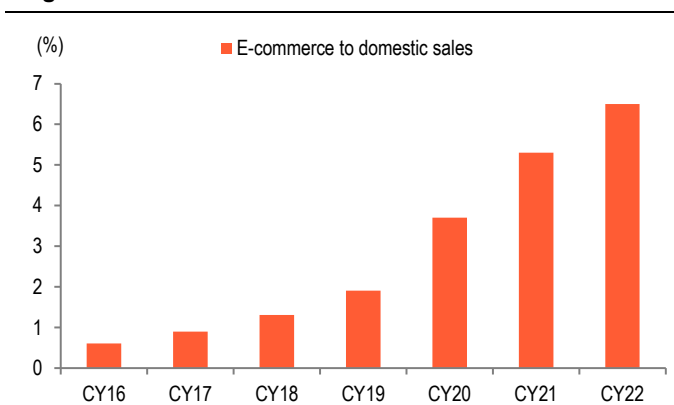
Source: Company, BOBCAPS Research

Fig 6 – Direct reach



Source: Company, BOBCAPS Research

Fig 7 – E-commerce share



Source: Company, BOBCAPS Research

Key result takeaways

- NEST's domestic sales for Q1CY23 increased by 21.2% YoY driven by strong double-digit growth across product segments. The company delivered robust 24.9% YoY growth in global markets through both mainstream and ethnic channels.
- Margins were impacted during the quarter due to higher costs of key raw materials, including milk and its derivatives, wheat flour and palm oil.
- NEST is witnessing early signs of softening in prices of commodities such as edible oils, wheat, and packaging materials. However, management expects costs of fresh milk, fuels, and green coffee to remain firm because of a sustained increase in demand and market volatility.
- The company's increased focus on rural and semiurban areas (RURBAN) continues to deliver dividends, as reflected in volume-led growth in rural markets in Q1.
- Out-of-home consumption posted a strong performance with growth across brands, channels, and geographies. E-commerce continued to do well with significant growth in quick commerce.
- Prepared dishes and cooking aids delivered robust growth across all products in the food portfolio, aided by market presence, media campaigns and focused consumer activations.
- Milk products and nutrition registered high double-digit growth, despite rising commodity prices. *Gerber* cereals and *Ceregrow* grain selection performed well. *Milkmaid* continued to post strong growth during the quarter.
- Confectionery displayed robust growth led by *Kitkat* and *Munch*, supported by focused trade plans and strong consumer engagement.
- Beverages continued to do well. *Nescafé* recorded its highest ever market share, and *Nescafé* RTD and out-of-home also delivered strong growth.
- The pet food business continued to build on its momentum with new products launched within the cat portfolio.
- NEST launched *ThickenUp Clear*, a food and beverage thickener that can be used to help patients with swallowing difficulties, especially in oropharyngeal dysphagia.
- The company in April declared an interim dividend of Rs 27/sh for CY23, amounting to Rs 2.6bn.

Valuation methodology

NEST continues to outperform peers in a challenging economic climate supported by strong consumer engagement, new product launches and a strategy of penetration-led volume growth. We expect the company to sustain its growth momentum underpinned by continued investments in innovation and premiumisation, expansion of its direct reach with increased focus on rural markets, and forays into newer categories.

The stock is trading at 65.1x/56.2x CY23E/CY24E EPS. We raise our CY23/CY24 EPS estimates 6%/8% to bake in the stellar Q1CY23 print, leading to a new TP of Rs 24,670 (vs. Rs 22,860). Our target is set at an unchanged P/E of 67x on CY24E EPS, in line with the long-term mean – maintain BUY.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	CY23E	CY24E	CY23E	CY24E	CY23E	CY24E
Revenue	195,111	219,525	185,208	205,083	5.3	7.0
EBIDTA	47,122	55,300	45,181	51,678	4.3	7.0
Adj. PAT	30,654	35,503	29,012	32,744	5.7	8.4
EBITDA Margin (%)	24.2	25.2	24.1	25.2	5bps	0bps
Adj. PAT Margin (%)	15.7	16.2	15.6	16.0	11bps	17bps

Source: BOBCAPS Research

Fig 9 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22	FY23E	FY22	FY23E	
ITC	ITC IN	BUY	459	19.6	12.4	15.2	24.3	27.6	25.1
Hindustan Unilever	HUVR IN	BUY	3,069	13.6	37.8	43.0	18.4	20.5	52.5
Britannia Industries	BRIT IN	BUY	5,623	11.7	63.3	93.3	59.0	65.7	51.0
Tata Consumer Products	TATACONS IN	BUY	924	8.5	10.2	12.8	5.7	7.0	51.6

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- continued inflation in input cost, and
- delay in rural recovery.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	12.9	4,403	5,623	BUY
Godrej Consumer Products	GCPL IN	12.0	963	1,112	BUY
Hindustan Unilever	HUVR IN	80.6	2,490	3,069	BUY
ITC	ITC IN	62.4	412	459	BUY
Nestle India	NEST IN	24.3	20,665	24,670	BUY
Tata Consumer Products	TATACONS IN	8.3	734	924	BUY

Source: BOBCAPS Research, NSE | Price as of 25 Apr 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	1,95,111	2,19,525
EBITDA	32,015	35,664	37,125	47,122	55,300
Depreciation	3,704	3,910	4,030	5,166	6,766
EBIT	28,311	31,754	33,095	41,956	48,534
Net interest inc./(exp.)	(1,642)	(2,017)	(1,546)	(1,969)	(2,132)
Other inc./(exp.)	1,459	1,202	1,010	1,218	1,317
Exceptional items	0	2,365	0	0	0
EBT	28,128	28,573	32,560	41,205	47,719
Income taxes	7,304	7,389	8,655	10,551	12,216
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	30,654	35,503
Adjustments	0	2,365	0	0	0
Adjusted net profit	20,824	23,549	23,905	30,654	35,503

Balance Sheet

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Accounts payables	15,166	17,482	19,338	23,696	25,950
Other current liabilities	1,588	1,703	2,310	2,310	2,310
Provisions	33,742	34,240	33,659	45,092	50,533
Debt funds	348	341	300	300	300
Other liabilities	7,959	9,112	9,589	9,680	9,713
Equity capital	964	964	964	964	964
Reserves & surplus	19,229	18,500	23,627	28,318	33,750
Shareholders' fund	20,193	19,464	24,592	29,282	34,714
Total liab. and equities	78,997	82,341	89,787	1,10,360	1,23,520
Cash and cash eq.	17,548	7,185	9,266	14,335	9,246
Accounts receivables	1,649	1,660	1,919	2,138	2,406
Inventories	14,165	15,927	19,288	21,699	23,763
Other current assets	976	1,942	1,963	2,320	2,611
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	23,361	25,755
Total assets	78,997	82,341	89,787	1,10,360	1,23,520

Cash Flows

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Cash flow from operations	24,545	22,360	27,374	49,375	48,157
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	(3,373)	(1,044)
Cash flow from investing	(3,215)	(19,203)	(3,917)	(14,898)	(21,044)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(602)	0	0	0	0
Interest expenses	(90)	(917)	(980)	(1,969)	(2,132)
Dividends paid	(18,898)	(19,283)	(20,247)	(25,963)	(30,071)
Other financing cash flows	31	0	0	0	0
Cash flow from financing	(19,559)	(20,200)	(21,227)	(27,932)	(32,202)
Chg in cash & cash eq.	1,771	(17,043)	2,229	6,544	(5,089)
Closing cash & cash eq.	17,548	7,102	7,791	14,335	9,246

Per Share

Y/E 31 Dec (Rs)	CY20A	CY21A	CY22A	CY23E	CY24E
Reported EPS	216.0	222.5	247.9	317.9	368.2
Adjusted EPS	216.0	244.2	247.9	317.9	368.2
Dividend per share	196.0	200.0	210.0	269.3	311.9
Book value per share	209.4	201.9	255.1	303.7	360.0

Valuations Ratios

Y/E 31 Dec (x)	CY20A	CY21A	CY22A	CY23E	CY24E
EV/Sales	14.9	13.5	11.8	10.2	9.1
EV/EBITDA	62.2	55.9	53.7	42.3	36.0
Adjusted P/E	95.7	84.6	83.3	65.0	56.1
P/BV	98.7	102.4	81.0	68.0	57.4

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	98.2	98.3
EBIT margin (EBIT/Revenue)	21.2	21.5	19.6	21.5	22.1
Asset turnover (Rev./Avg TA)	169.0	179.0	188.2	176.8	177.7
Leverage (Avg TA/Avg Equity)	3.9	4.2	3.7	3.8	3.6
Adjusted ROAE	103.1	108.8	97.2	104.7	102.3

Ratio Analysis

Y/E 31 Dec	CY20A	CY21A	CY22A	CY23E	CY24E
YoY growth (%)					
Revenue	7.9	10.4	14.6	15.5	12.5
EBITDA	10.8	11.4	4.1	26.9	17.4
Adjusted EPS	4.4	13.1	1.5	28.2	15.8
Profitability & Return ratios (%)					
EBITDA margin	24.0	24.2	22.0	24.2	25.2
EBIT margin	21.2	21.5	19.6	21.5	22.1
Adjusted profit margin	15.6	16.0	14.1	15.7	16.2
Adjusted ROAE	103.1	108.8	97.2	104.7	102.3
ROCE	137.8	160.3	133.0	141.8	138.6
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	5.6	4.6
Current ratio	1.7	1.0	1.1	1.2	1.1
Net interest coverage ratio	17.2	15.7	21.4	21.3	22.8
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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BUY – Expected return >+15%

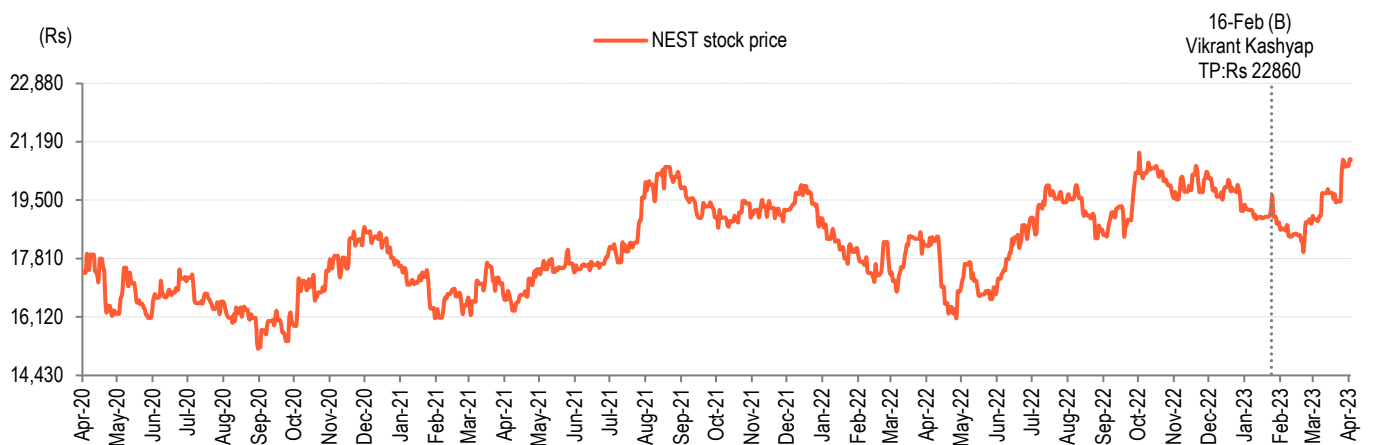
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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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