

BUY

TP: Rs 26,430 | ▲ 18%

NESTLE INDIA

Consumer Staples

28 July 2023

Healthy growth backed by market penetration

- Q2 revenue up 15% YoY led by strong growth across categories and geographies; margins remained healthy
- RURBAN strategy boosting the distribution footprint while e-commerce now contributes 6.5% of sales
- Increased focus on innovation and brand building; maintain BUY with unchanged TP of Rs 26,430

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Growth momentum continues: NEST posted healthy topline growth of 15% YoY in Q2CY23 supported by a better product mix, prudent pricing, and higher volumes. Export revenue registered strong double-digit growth. NEST has delivered double-digit growth across product segments for the fifth consecutive quarter and indicated that it has performed well across megacities, metros, tier-1-to-6 towns, and rural markets. The e-commerce channel now contributes 6.5% of sales led by quick commerce. The company continues to drive innovation and launched three new products in India.

Strong growth across portfolios: The prepared dishes and cooking aids business delivered double-digit growth driven by *Maggie* noodles. Confectionary performed well led by *Kitkat* and *Munch* which were backed by strong consumer engagement and media campaigns. The beverages segment registered robust double-digit growth on the back of *Nescafe Classic*, *Nescafe Sunrise*, and *Nescafe Gold*. The milk and nutrition portfolio posted strong double-digit growth despite inflation in *Milkmaid* and *Peptamen*.

Margins remained healthy: NEST's gross profit margin improved by 100bps QoQ and 80bps YoY to 54.8% in Q2 owing to price correction in edible oil, wheat, and packaging material, along with stability in fresh milk. Robusta coffee prices remain elevated and are expected to stay volatile. EBITDA margin at 22.7% expanded 200bps YoY but remains unchanged sequentially.

Maintain BUY: NEST continues to deliver a strong performance in a challenging economic climate supported by strong consumer engagement, new launches, and a strategy of penetration-led volume growth. We expect sustained, profitable growth underpinned by investments in innovation and premiumisation, direct reach expansion with a rural focus, and forays into newer categories. The stock is trading at 70.9x/60.4x CY23E/CY24E EPS. Given the sustained outperformance, we maintain our target P/E at 69.5x on CY24E, 18% premium to the 10Y average multiple, for an unchanged TP of Rs 26,430. BUY.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	NEST IN/Rs 22,325
Market cap	US\$ 26.2bn
Free float	37%
3M ADV	US\$ 18.5mn
52wk high/low	Rs 23,395/Rs 17,880
Promoter/FPI/DII	63%/12%/25%

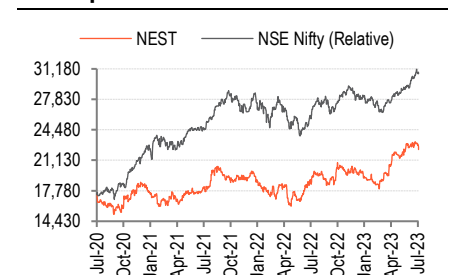
Source: NSE | Price as of 27 Jul 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	1,68,969	1,98,192	2,25,516
EBITDA (Rs mn)	37,125	47,894	56,828
Adj. net profit (Rs mn)	23,905	31,242	36,666
Adj. EPS (Rs)	247.9	324.0	380.3
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	106.4	104.8
Adj. P/E (x)	90.0	68.9	58.7
EV/EBITDA (x)	58.0	44.9	37.9
Adj. EPS growth (%)	1.5	30.7	17.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

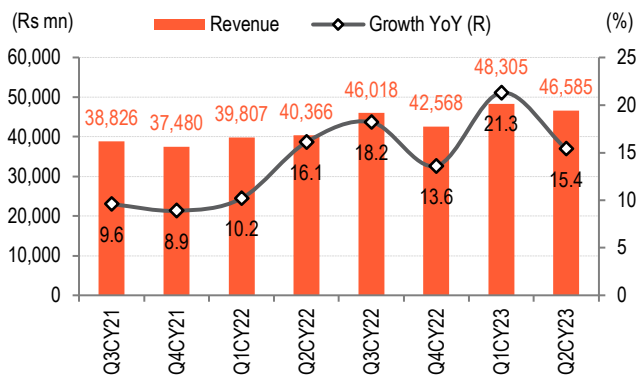


Fig 1 – Quarterly performance

(Rs mn)	Q2CY23	Q1CY23	Q2CY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	46,585	48,305	40,366	(3.6)	15.4	47,638	(2.2)
EBITDA	10,555	10,955	8,355	(3.7)	26.3	11,195	(5.7)
Adj. PAT	6,983	7,366	5,314	(5.2)	31.4	7,116	(1.9)
Gross Margin (%)	54.8	53.8	54	100bps	80bps	55.6	(80bps)
EBITDA Margin (%)	22.7	22.7	20.7	0bps	200bps	23.5	(80bps)
Adj. PAT Margin (%)	15.0	15.3	13.2	(26bps)	183bps	14.9	9bps

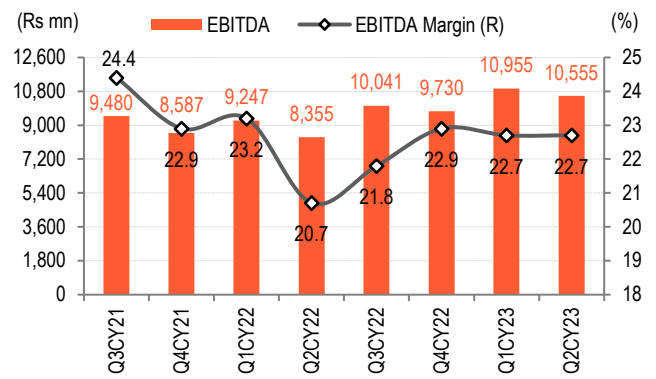
Source: Company, BOBCAPS Research

Fig 2 – Quarterly revenue growth



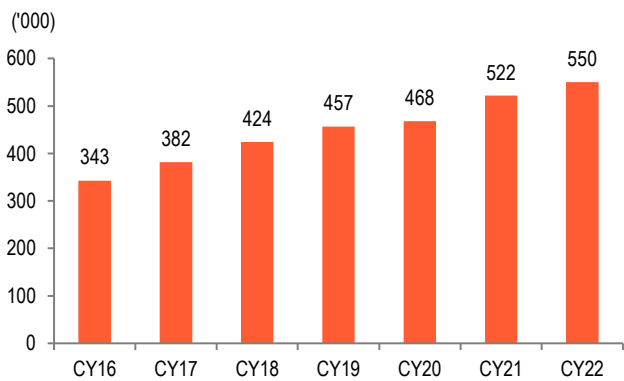
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



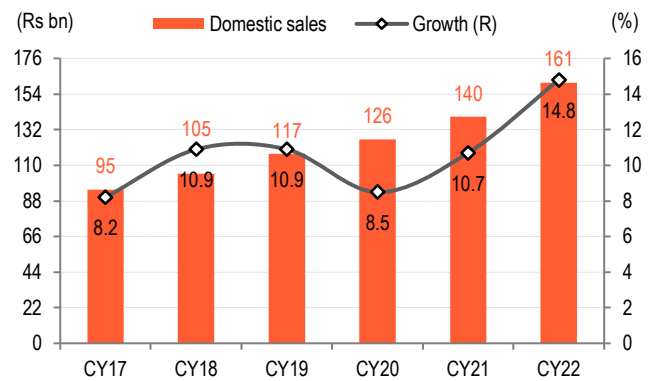
Source: Company, BOBCAPS Research

Fig 4 – Annual volume growth



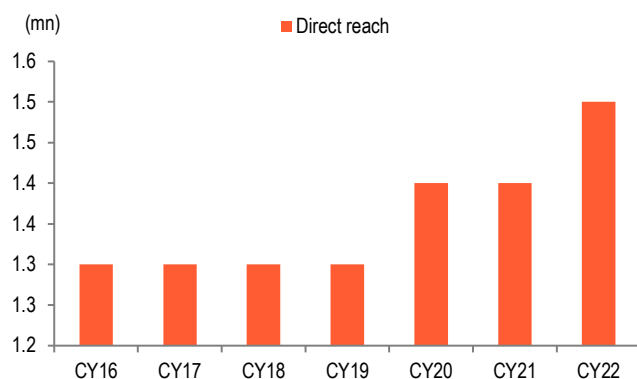
Source: Company, BOBCAPS Research

Fig 5 – Domestic sales growth



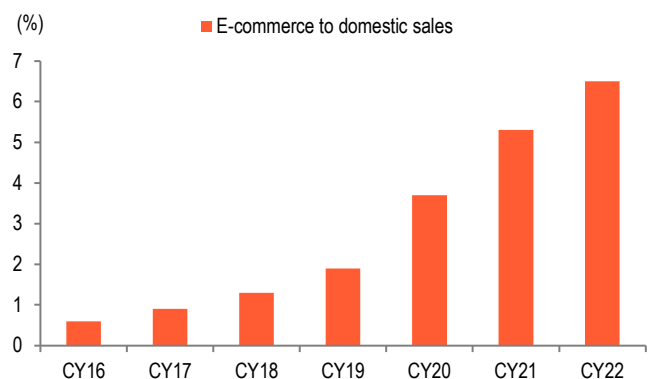
Source: Company, BOBCAPS Research

Fig 6 – Direct reach



Source: Company, BOBCAPS Research

Fig 7 – E-commerce share



Source: Company, BOBCAPS Research

Key result takeaways

- NEST's domestic business continues to perform well and grew 14.6% YoY in Q2CY23 on the back of prudent pricing, supported by mix and volumes. Key brands including *Kitkat*, *Nescafe* and *Maggi* continued to stand out.
- Q2CY23 was the fifth straight quarter of double-digit growth across product segments. NEST witnessed strong growth across megacities, metros and tier-1-to-6 towns, along with a continued uptick in rural markets.
- During the quarter, NEST saw moderation in prices of key commodities such as edible oils, wheat, and packaging materials, along with price stability in fresh milk. Robusta coffee prices remain elevated and are expected to stay volatile.
- Exports registered double-digit growth across product categories led by products such as *Nescafe Sunrise* and *Polo*.
- Out-of-home consumption continued to deliver robust growth through premiumisation, portfolio transformation initiatives, kiosk expansion and prioritisation of emerging channels.
- The prepared dishes and cooking aids business was driven by sales of *Maggi* noodles and aided by distribution expansion and consumer activations.
- Milk products and nutrition did well despite continued inflationary pressures. Growth was led by *Milkmaid* and *Peptamen* and further aided by the launch of *Resource Fibre Choice* and *Everyday Zero added Sugar*.
- *Kitkat* and *Munch* headlined sales in the confectionery business supported by strong consumer engagement and media campaigns.
- Beverages saw greater household penetration in *Nescafe Classic*, *Sunrise* and *Gold* for both hot and cold coffee. The company launched cold coffee premix *Nescafe All In 1 Frappe* during the quarter.
- Petcare product *Felix* has received positive feedback.
- NEST has received in-principal approval for setting up a food processing unit in Odisha at an investment of ~Rs 8.9bn.
- The e-commerce channel continues to grow driven by quick commerce and contributed 6.5% of sales. Organised trade maintained strong growth momentum across categories driven by store expansion and improved footfalls.

Valuation methodology

NEST continues to deliver a strong performance in a challenging economic climate supported by strong consumer engagement, new launches, and a strategy of penetration-led volume growth. We expect sustained, profitable growth underpinned by investments in innovation and premiumisation, direct reach expansion with a rural focus, and forays into newer categories.

The stock is trading at 70.9x/60.4x CY23E/CY24E EPS. Given the sustained outperformance, we maintain our target P/E at 69.5x on CY24E, 18% premium to the 10-year average multiple, for an unchanged TP of Rs 26,430. Maintain BUY.

Key risks

Key downside risks to our estimates are:

- continued inflation in key commodities, and
- delayed rural recovery

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.3	4,873	5,844	BUY
Dabur India	DABUR IN	12.4	574	669	BUY
Godrej Consumer Products	GCPL IN	12.8	1,030	1,159	BUY
Hindustan Unilever	HUVR IN	73.5	2,570	3,069	BUY
ITC	ITC IN	70.3	465	523	BUY
Marico	MRCO IN	8.7	554	629	BUY
Nestle India	NEST IN	26.2	22,325	26,430	BUY
Tata Consumer Products	TATACONS IN	9.6	850	994	BUY
Zydus Wellness	ZYWL IN	1.2	1,490	1,631	HOLD

Source: BOBCAPS Research, NSE | Price as of 27 Jul 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	1,98,192	2,25,516
EBITDA	32,015	35,664	37,125	47,894	56,828
Depreciation	3,704	3,910	4,030	5,166	6,766
EBIT	28,311	31,754	33,095	42,728	50,061
Net interest inc./(exp.)	(1,642)	(2,017)	(1,546)	(1,969)	(2,132)
Other inc./(exp.)	1,459	1,202	1,010	1,236	1,353
Exceptional items	0	2,365	0	0	0
EBT	28,128	28,573	32,560	41,995	49,283
Income taxes	7,304	7,389	8,655	10,753	12,616
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	31,242	36,666
Adjustments	0	2,365	0	0	0
Adjusted net profit	20,824	23,549	23,905	31,242	36,666

Balance Sheet

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Accounts payables	15,166	17,482	19,338	24,063	26,657
Other current liabilities	1,588	1,703	2,310	2,310	2,310
Provisions	33,742	34,240	33,659	45,778	51,868
Debt funds	348	341	300	300	300
Other liabilities	7,959	9,112	9,589	9,684	9,721
Equity capital	964	964	964	964	964
Reserves & surplus	19,229	18,500	23,628	28,408	34,018
Shareholders' fund	20,193	19,464	24,592	29,372	34,982
Total liab. and equities	78,997	82,341	89,787	1,11,507	1,25,838
Cash and cash eq.	17,548	7,185	9,266	14,774	10,192
Accounts receivables	1,649	1,660	1,919	2,172	2,471
Inventories	14,165	15,927	19,288	22,035	24,410
Other current assets	976	1,942	1,963	2,357	2,682
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	23,663	26,342
Total assets	78,997	82,341	89,787	1,11,507	1,25,838

Cash Flows

Y/E 31 Dec (Rs mn)	CY20A	CY21A	CY22A	CY23E	CY24E
Cash flow from operations	24,545	22,360	27,374	50,592	49,895
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	(3,653)	(1,289)
Cash flow from investing	(3,215)	(19,203)	(3,917)	(15,178)	(21,289)
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)	(26,462)	(31,056)
Other financing cash flows	31	0	0	0	0
Cash flow from financing	(19,559)	(20,200)	(21,227)	(28,430)	(33,188)
Chg in cash & cash eq.	1,771	(17,043)	2,229	6,983	(4,582)
Closing cash & cash eq.	17,548	7,102	7,791	14,774	10,192

Per Share

Y/E 31 Dec (Rs)	CY20A	CY21A	CY22A	CY23E	CY24E
Reported EPS	216.0	222.5	247.9	324.0	380.3
Adjusted EPS	216.0	244.2	247.9	324.0	380.3
Dividend per share	196.0	200.0	210.0	274.5	322.1
Book value per share	209.4	201.9	255.1	304.6	362.8

Valuations Ratios

Y/E 31 Dec (x)	CY20A	CY21A	CY22A	CY23E	CY24E
EV/Sales	16.1	14.6	12.7	10.9	9.5
EV/EBITDA	67.2	60.3	58.0	44.9	37.9
Adjusted P/E	103.4	91.4	90.0	68.9	58.7
P/BV	106.6	110.6	87.5	73.3	61.5

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	98.3	98.4
EBIT margin (EBIT/Revenue)	21.2	21.5	19.6	21.6	22.2
Asset turnover (Rev./Avg TA)	169.0	179.0	188.2	177.7	179.2
Leverage (Avg TA/Avg Equity)	3.9	4.2	3.7	3.8	3.6
Adjusted ROAE	103.1	108.8	97.2	106.4	104.8

Ratio Analysis

Y/E 31 Dec	CY20A	CY21A	CY22A	CY23E	CY24E
YoY growth (%)					
Revenue	7.9	10.4	14.6	17.3	13.8
EBITDA	10.8	11.4	4.1	29.0	18.7
Adjusted EPS	4.4	13.1	1.5	30.7	17.4
Profitability & Return ratios (%)					
EBITDA margin	24.0	24.2	22.0	24.2	25.2
EBIT margin	21.2	21.5	19.6	21.6	22.2
Adjusted profit margin	15.6	16.0	14.1	15.8	16.3
Adjusted ROAE	103.1	108.8	97.2	106.4	104.8
ROCE	137.8	160.3	133.0	144.0	141.9
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	5.7	4.7
Current ratio	1.7	1.0	1.1	1.2	1.1
Net interest coverage ratio	17.2	15.7	21.4	21.7	23.5
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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Brand Name: **BOBCAPS**

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BUY – Expected return >+15%

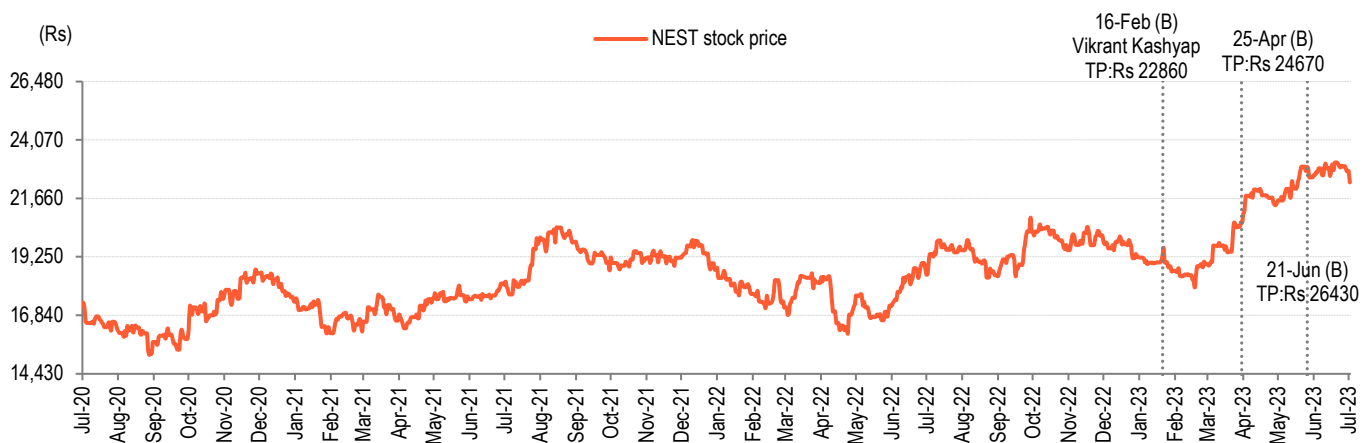
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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