

BUY

TP: Rs 28,260 | ▲ 17%

NESTLE INDIA

| Consumer Staples

| 19 October 2023

Strong all-round performance

- Domestic business posted double-digit growth in Q3 with continued margin expansion
- NEST announced its second interim dividend of Rs 140/sh and a 1:10 stock split
- TP rises to Rs 28,260 (vs. Rs 26,430) on rollover to Dec'25E with a revised target P/E of 65x (vs. 69.5x on CY24E)

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Domestic business continues to register double-digit growth: NEST delivered revenue growth of 9% YoY in Q3CY23 to Rs 50.1bn, with domestic sales growth of 10% YoY backed by a healthy mix of pricing and volumes. Gross margin improved 170bps QoQ and 380bps YoY to 56.5% and EBITDA margin expanded 160bps QoQ and 250bps YoY to 24.3%. NEST's quarterly revenue run-rate has crossed the Rs 50bn mark for the first time, with sustained momentum in key brands such as *Kitkat*, *Nescafe Classic* and *Nescafe Sunrise*. The e-commerce channel contributed 6.1% of quarterly sales led by quick commerce. Exports were subdued, dipping 6.5% YoY.

Strong growth across portfolios: Growth momentum continued in the prepared dishes and cooking aids business driven by strong consumer engagement, especially for RURBAN (rural plus urban) markets, and targeted media campaigns. The confectionary business performed well led by *Kitkat* and supported by *Munch*, as did beverages on the back of double-digit growth in *Nescafe Classic*, *Nescafe Sunrise*, and *Nescafe Gold*.

Innovation and launches remain in focus: The company continues to drive innovation and launched two variants of Maggi noodles across 15 states in India and two variants of millet porridge as well.

Maintain BUY: NEST continues to deliver a strong performance in domestic markets supported by consumer engagement, new launches, and uptrading to branded products in small towns and large villages. We expect sustained, profitable growth underpinned by investments in innovation, premiumisation, and direct reach expansion with a rural focus. The stock is trading at 64.2x/55.5x CY24E/CY25E EPS. We introduce CY25 estimates and assign a 2Y forward multiple of 65x to NEST (earlier 69.5x on CY24E), translating to a revised TP of Rs 28,260 (earlier Rs 26,430). Retain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	NEST IN/Rs 24,132
Market cap	US\$ 28.3bn
Free float	37%
3M ADV	US\$ 17.5mn
52wk high/low	Rs 24,227/Rs 17,880
Promoter/FPI/DII	63%/12%/25%

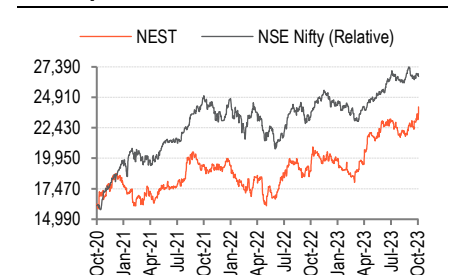
Source: NSE | Price as of 19 Oct 2023

Key financials

Y/E 31 Dec	CY22A	CY23E	CY24E
Total revenue (Rs mn)	168,969	194,416	221,824
EBITDA (Rs mn)	37,125	46,097	55,879
Adj. net profit (Rs mn)	23,905	29,819	36,218
Adj. EPS (Rs)	247.9	309.3	375.6
Consensus EPS (Rs)	247.9	306.6	350.9
Adj. ROAE (%)	97.2	105.3	103.9
Adj. P/E (x)	97.3	78.0	64.2
EV/EBITDA (x)	62.7	50.5	41.6
Adj. EPS growth (%)	1.5	24.7	21.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

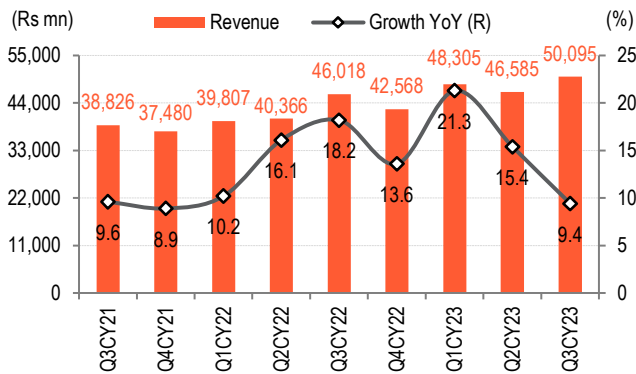


Fig 1 – Financial performance

(Rs mn)	Q3CY23	Q2CY23	Q3CY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	50,095	46,585	46,018	7.5	8.9	51,954	(3.6)
EBITDA	12,249	10,555	10,041	16.0	22.0	12,417	(1.4)
Adj. PAT	8,017	6,983	6,615	14.8	21.2	8,078	(0.8)
Gross Margin (%)	56.5	54.8	52.7	170bps	380bps	55.6	90bps
EBITDA Margin (%)	24.3	22.7	21.8	160bps	250bps	23.9	40bps
Adj. PAT Margin (%)	15.9	15.0	14.4	93bps	152bps	15.6	37bps

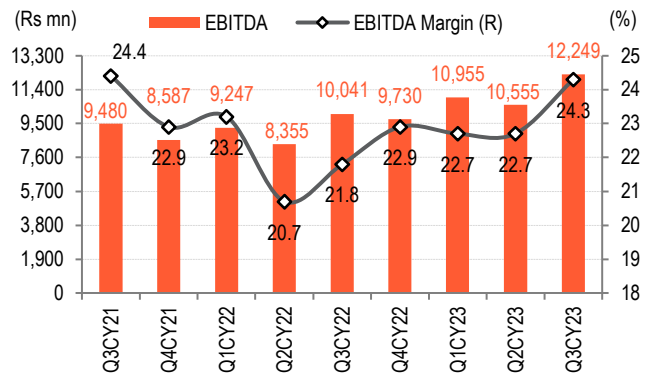
Source: Company, BOBCAPS Research

Fig 2 – Quarterly revenue growth



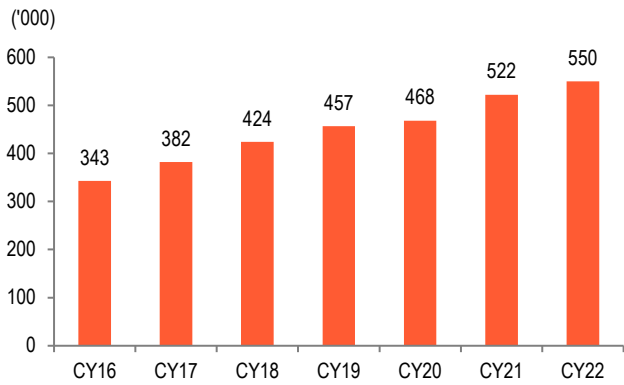
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and Margin



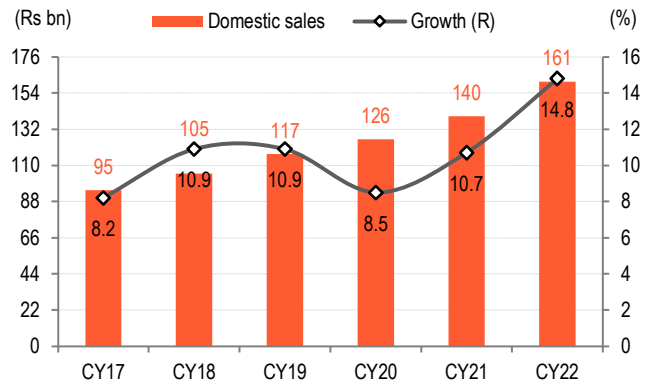
Source: Company, BOBCAPS Research

Fig 4 – Annual volumes



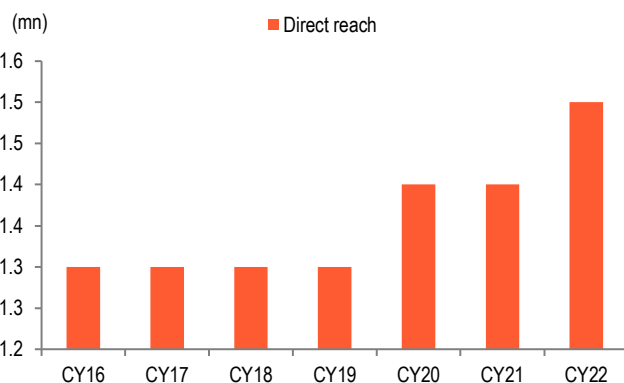
Source: Company, BOBCAPS Research

Fig 5 – Domestic sales growth



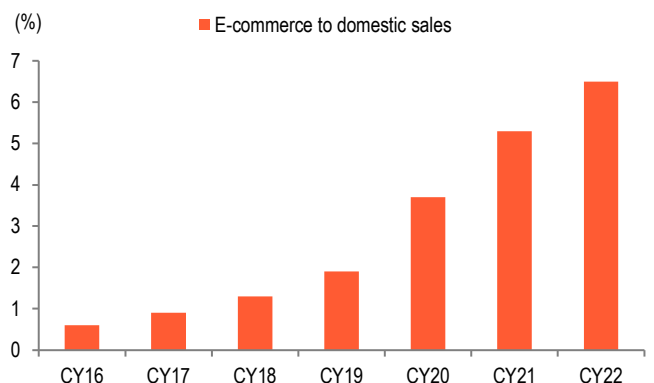
Source: Company, BOBCAPS Research

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 10.3% YoY in Q3CY23 supported by better pricing and volumes. Key brands, including *Kitkat*, *Nescafe* and *Maggi*, maintained strong momentum.
- For the first time, NEST has crossed Rs 50bn in quarterly revenue, supported by continued investment in brand building and in the product portfolio.
- E-commerce contributed 6.1% of the quarter's sales driven by quick commerce. The company's D2C platform *MyNestle* has performed well in Delhi NCR and the company is in the process of expanding the platform to other cities.
- With its RURBAN strategy, NEST remains focused on deepening its reach in underpenetrated small towns and large villages. Per management, adoption of its products in these markets has propelled growth during Q2.
- The company continues to widen its portfolio to cater to local requirements and launched two variants of *Maggi* noodles in RURBAN markets across 15 states in India during Q2. It also introduced two variants in its millet portfolio with plans for further additions.
- In international markets, NEST expanded its product offerings and indicated that the *Maggi* and *Nescafé Sunrise* range saw strong demand in both the ethnic and mainstream channels.
- The out-of-home business continues to do well with double-digit growth in Q3 backed by a focus on portfolio transformation, geographical expansion and investment in infrastructure.
- The prepared dishes and cooking aids business maintained growth momentum across the portfolio, driven by media campaigns, improved visibility and targeted consumer engagement initiatives, especially for RURBAN markets.
- Milk products and nutrition posted double-digit growth. *Milkmaid* and *Peptamen* continued to receive a positive consumer response.
- In confectionery, all key products registered strong growth, led by *Kitkat* and supported by *Munch*. The performance was aided by consistent media support and digital first campaigns.
- In beverages, the *Nescafe* portfolio saw a broad-based demand uptick with key brands, including *Classic*, *Sunrise* and *Gold*, registering double-digit revenue growth. Nescafe continued to strengthen its leadership position in the category with household penetration gains and the highest ever market share in Q3.
- In petcare, the company indicated that *Felix* wet cat food continued to receive positive feedback from trade and cat owners.

- NEST expects uneven rainfall to impact the production of maize, sugar, oilseeds, and spices, which may have an adverse effect on pricing. Coffee prices remain volatile due to a global supply deficit. Bad weather during the harvest of the Indian Robusta crop may impact production.
- The board has declared a second interim dividend of Rs 140/sh for CY23 in addition to the Rs 27/sh paid in May. It also approved the split of existing equity shares of face value Rs 10 each into 10 shares of face value Re 1 each, subject to approval from members of the company.

Valuation methodology

NEST continues to deliver a strong performance in domestic markets supported by consumer engagement, new launches, and upgrading to branded products in small towns and large villages. We expect the company to show sustained, profitable growth underpinned by investments in innovation, premiumisation, and direct reach expansion with a rural focus.

The stock is trading at 64.2x/55.5x CY24E/CY25E EPS. We introduce CY25 estimates and assign a two-year forward multiple of 65x to NEST (earlier 69.5x on CY24E), translating to a revised TP of Rs 28,260 (earlier Rs 26,430). Maintain BUY.

Key risks

Key downside risks to our estimates are:

- higher food inflation, and
- delayed rural recovery

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.5	4,602	5,844	BUY
Dabur India	DABUR IN	11.3	526	669	BUY
Godrej Consumer Products	GCPL IN	12.2	984	1,159	BUY
Hindustan Unilever	HUVR IN	72.9	2,548	3,069	BUY
ITC	ITC IN	68.1	450	523	BUY
Marico	MRCO IN	8.6	547	646	BUY
Nestle India	NEST IN	28.3	24,132	28,260	BUY
Tata Consumer Products	TATACONS IN	10.1	895	994	BUY
Zydus Wellness	ZYWL IN	1.2	1,555	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 Oct 2023

Financials

Income Statement

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23E	CY24E	CY25E
Total revenue	147,406	168,969	194,416	221,824	252,190
EBITDA	35,664	37,125	46,097	55,879	63,412
Depreciation	3,910	4,030	5,480	7,177	7,177
EBIT	31,754	33,095	40,617	48,702	56,235
Net interest inc./(exp.)	(2,017)	(1,546)	(1,350)	(1,353)	(1,353)
Other inc./(exp.)	1,202	1,010	1,204	1,331	1,514
Exceptional items	2,365	0	(1,064)	0	0
EBT	28,573	32,560	41,536	48,681	56,397
Income taxes	7,389	8,655	10,652	12,462	14,478
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	21,184	23,905	30,884	36,218	41,919
Adjustments	2,365	0	(1,064)	0	0
Adjusted net profit	23,549	23,905	29,819	36,218	41,919

Balance Sheet

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23E	CY24E	CY25E
Accounts payables	17,482	19,338	23,703	26,221	29,830
Other current liabilities	1,703	2,310	2,310	2,310	2,310
Provisions	34,240	33,659	38,486	43,684	49,445
Debt funds	341	300	300	300	300
Other liabilities	9,112	9,589	9,615	9,643	9,674
Equity capital	964	964	964	964	964
Reserves & surplus	18,500	23,628	28,353	33,895	40,309
Shareholders' fund	19,464	24,592	29,317	34,859	41,273
Total liab. and equities	82,341	89,787	103,731	117,018	132,832
Cash and cash eq.	7,185	9,266	10,761	5,976	6,849
Accounts receivables	1,660	1,919	2,131	2,431	2,764
Inventories	15,927	19,288	21,532	23,820	27,097
Other current assets	1,942	1,963	2,259	2,577	2,930
Investments	7,740	7,775	7,775	7,775	7,775
Net fixed assets	26,530	27,058	34,578	47,401	55,782
CWIP	2,462	3,584	3,584	3,584	3,584
Intangible assets	0	0	0	0	1
Deferred tax assets, net	258	256	256	256	256
Other assets	18,638	18,679	20,855	23,199	25,795
Total assets	82,341	89,787	103,731	117,018	132,832

Cash Flows

Y/E 31 Dec (Rs mn)	CY21A	CY22A	CY23E	CY24E	CY25E
Cash flow from operations	22,360	27,374	42,950	48,229	55,783
Capital expenditures	(7,348)	(5,499)	(13,000)	(20,000)	(17,000)
Change in investments	(13,523)	1,288	1,475	0	0
Other investing cash flows	1,668	294	(946)	(985)	(1,052)
Cash flow from investing	(19,203)	(3,917)	(12,471)	(20,985)	(18,052)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(917)	(980)	(1,350)	(1,353)	(1,353)
Dividends paid	(19,283)	(20,247)	(26,158)	(30,677)	(35,505)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(20,200)	(21,227)	(27,508)	(32,029)	(36,858)
Chg in cash & cash eq.	(17,043)	2,229	2,971	(4,785)	873
Closing cash & cash eq.	7,102	7,791	10,761	5,976	6,849

Per Share

Y/E 31 Dec (Rs)	CY21A	CY22A	CY23E	CY24E	CY25E
Reported EPS	222.5	247.9	320.3	375.6	434.8
Adjusted EPS	244.2	247.9	309.3	375.6	434.8
Dividend per share	200.0	210.0	271.3	318.2	368.3
Book value per share	201.9	255.1	304.1	361.5	428.1

Valuations Ratios

Y/E 31 Dec (x)	CY21A	CY22A	CY23E	CY24E	CY25E
EV/Sales	15.8	13.8	12.0	10.5	9.2
EV/EBITDA	65.2	62.7	50.5	41.6	36.7
Adjusted P/E	98.8	97.3	78.0	64.2	55.5
P/BV	119.5	94.6	79.4	66.7	56.4

DuPont Analysis

Y/E 31 Dec (%)	CY21A	CY22A	CY23E	CY24E	CY25E
Tax burden (Net profit/PBT)	74.1	73.4	74.4	74.4	74.3
Interest burden (PBT/EBIT)	90.0	98.4	102.3	100.0	100.3
EBIT margin (EBIT/Revenue)	21.5	19.6	20.9	22.0	22.3
Asset turnover (Rev./Avg TA)	179.0	188.2	187.4	189.6	189.9
Leverage (Avg TA/Avg Equity)	4.2	3.7	3.5	3.4	3.2
Adjusted ROAE	108.8	97.2	105.3	103.9	101.6

Ratio Analysis

Y/E 31 Dec	CY21A	CY22A	CY23E	CY24E	CY25E
YoY growth (%)					
Revenue	10.4	14.6	15.1	14.1	13.7
EBITDA	11.4	4.1	24.2	21.2	13.5
Adjusted EPS	13.1	1.5	24.7	21.5	15.7
Profitability & Return ratios (%)					
EBITDA margin	24.2	22.0	23.7	25.2	25.1
EBIT margin	21.5	19.6	20.9	22.0	22.3
Adjusted profit margin	16.0	14.1	15.3	16.3	16.6
Adjusted ROAE	108.8	97.2	105.3	103.9	101.6
ROCE	160.3	133.0	137.1	138.5	135.3
Working capital days (days)					
Receivables	4	4	4	4	4
Inventory	92	91	91	91	91
Payables	101	91	100	100	100
Ratios (x)					
Gross asset turnover	2.3	2.4	5.6	4.7	4.5
Current ratio	1.0	1.1	1.1	1.0	1.0
Net interest coverage ratio	15.7	21.4	30.1	36.0	41.6
Adjusted debt/equity	1.7	1.2	1.0	0.9	0.7

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

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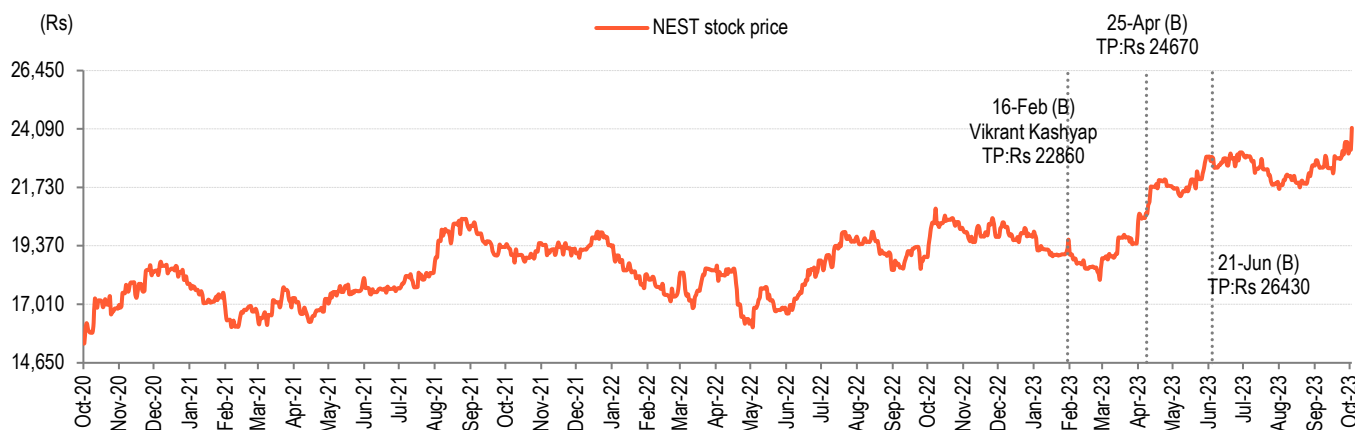
HOLD – Expected return from -6% to +15%

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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