

**BUY**  
 TP: Rs 2,826 | ▲ 17%

**NESTLE INDIA**

Consumer Staples

08 February 2024

**Broad-based growth across product categories**

- Domestic sales continue to underpin growth, rising 8.9% YoY in the December quarter on better pricing, volumes and product mix
- Gross margin improved 370bps YoY and EBITDA margin expanded 90bps to 23.8%
- Expect growth momentum to continue; maintain BUY with unchanged TP of Rs 2,826

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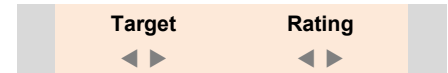
**Sustained growth in domestic business:** NEST delivered revenue growth of 8.1% YoY in the December quarter to Rs 46bn, with domestic sales growth of 8.9% YoY backed by a healthy product mix, pricing and volumes. Exports, however, remained subdued during the quarter. Gross margin improved 370bps YoY to 58.6% and EBITDA margin expanded 90bps YoY to 23.8%. The e-commerce channel contributed 7% of sales compared to 6.1% in the previous quarter. NEST expanded its reach to 196,000 villages by adding 5,300 villages during the quarter. The board declared its third interim dividend of Rs 7/sh.

**Momentum across portfolios:** Growth momentum continued in the prepared dishes and cooking aids business, supported by media investments, consumer engagement and innovations aimed at developing the ‘RURBAN’ markets. The confectionary business performed well led by *Kitkat* and *Munch*, as did beverages on the back of double-digit revenue growth YoY in *Nescafe Classic* and *Nescafe Sunrise*.

**Innovation and launches remain in focus:** The company recently launched *Maggi* Korean noodles, *Maggi* oats noodles with millets and *Gerber* puffs. During the quarter, it expanded *Nestle A+* masala millet porridge to Mumbai and its *Milo* health drink for teenagers to key southern markets. Over the past seven years, the company has launched a total of 130 products that have helped bolster growth.

**Maintain BUY:** NEST continues to deliver a strong performance in domestic markets amid a challenging environment, supported by consumer engagement, new launches and an increasing reach in rural markets. We expect sustained, profitable growth underpinned by continued investments in innovation, premiumisation and direct reach expansion with a rural focus. The stock is trading at 66.6x/55.6x on FY25E/FY26E EPS. We introduce FY26 estimates and roll valuations over from CY25E to FY26E. Our TP remains at Rs 2,826 based on an unchanged 65x P/E multiple – in line with the long-term average.

**Key changes**



Ticker/Price	NEST IN/Rs 2,423
Market cap	US\$ 28.4bn
Free float	37%
3M ADV	US\$ 12.4mn
52wk high/low	Rs 2,769/Rs 1,788
Promoter/FPI/DII	63%/12%/25%

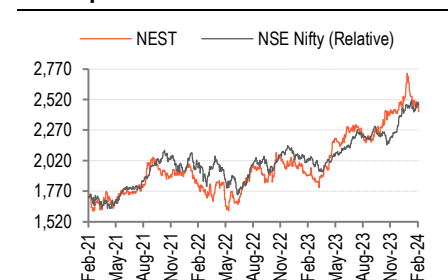
Source: NSE | Price as of 8 Feb 2024

**Key financials**

Y/E 31 Mar	CY22A	FY24E	FY25E
Total revenue (Rs mn)	168,969	243,176	215,459
EBITDA (Rs mn)	37,125	57,013	53,218
Adj. net profit (Rs mn)	23,905	38,108	35,082
Adj. EPS (Rs)	247.9	39.5	36.4
Consensus EPS (Rs)	247.9	38.3	36.9
Adj. ROAE (%)	97.2	125.2	98.0
Adj. P/E (x)	9.8	61.3	66.6
EV/EBITDA (x)	62.9	41.0	43.9
Adj. EPS growth (%)	1.5	(84.1)	(7.9)

Source: Company, Bloomberg, BOBCAPS Research | FY24 is for 15 months due to a change in year-end from December to March

**Stock performance**



Source: NSE

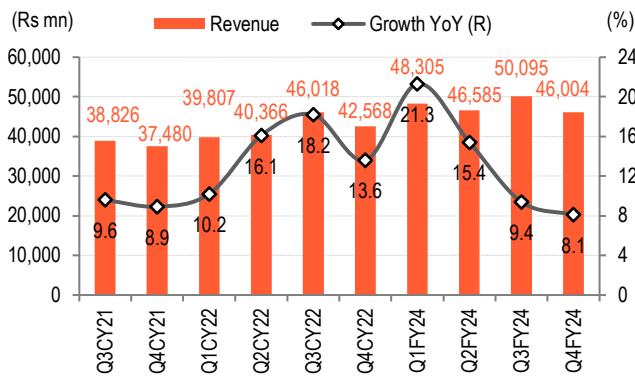


**Fig 1 – Financial performance**

(Rs mn)	Oct-Dec'23	Jul-Sep'23	Oct-Dec'22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	46,004	50,368	42,568	(8.7)	8.1	47,877	(3.9)
EBITDA	10,951	12,249	9,730	(10.6)	12.5	12,017	(8.9)
Adj. PAT	7,629	8,017	6,281	(4.8)	21.5	7,874	(3.1)
Gross Margin (%)	58.6	56.5	54.9	210bps	370bps	56.8	180bps
EBITDA Margin (%)	23.8	24.3	22.9	(50bps)	90bps	25.1	(130bps)
Adj. PAT Margin (%)	16.6	15.9	14.8	68bps	180bps	16.5	10bps

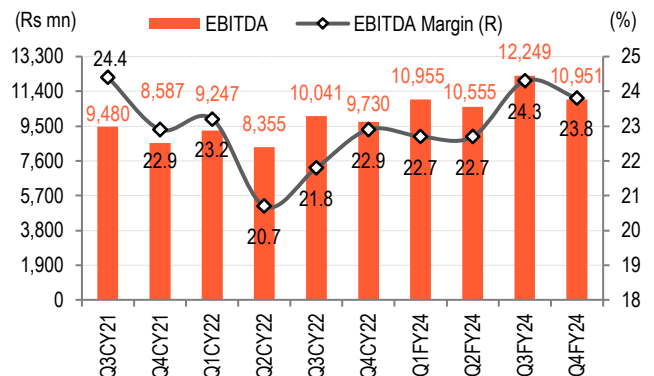
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly revenue growth**



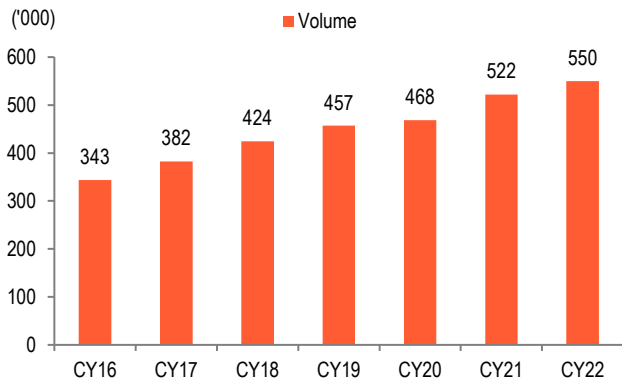
Source: Company, BOBCAPS Research | Note: NEST has changed its Y/E from Dec to Mar in FY24

**Fig 3 – EBITDA and Margin**



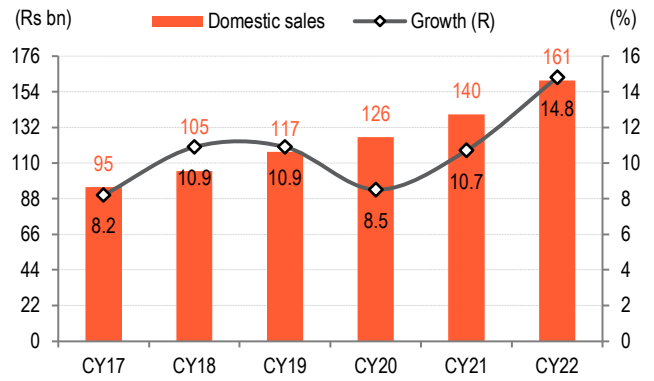
Source: Company, BOBCAPS Research

**Fig 4 – Annual volumes**



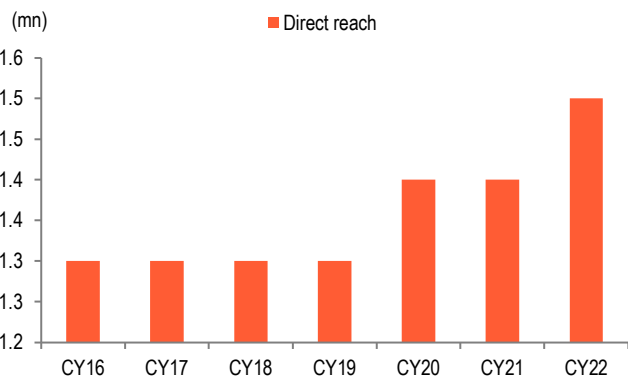
Source: Company, BOBCAPS Research

**Fig 5 – Domestic sales growth**



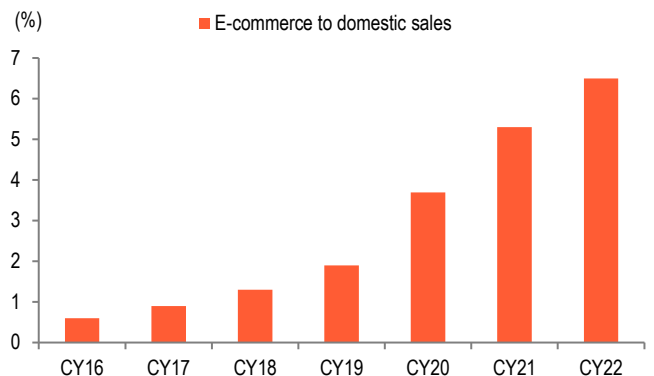
Source: Company, BOBCAPS Research

**Fig 6 – Direct reach**



Source: Company, BOBCAPS Research

**Fig 7 – E-commerce share**



Source: Company, BOBCAPS Research

## Key result takeaways

- NEST's domestic revenue grew 8.9% YoY in the Dec'23 quarter spurred by better pricing, volume growth and a favourable product mix, with strong growth momentum in e-commerce and out-of-home channels.
- During the quarter, the company increased brand investments across product categories and indicated that all key brands have contributed to growth.
- Beverages reported double-digit YoY revenue growth during the quarter, backed by strong demand for *Nescafe Classic* and *Nescafe Sunrise*. Nescafe also gained significant market share.
- NEST posted double-digit growth in the milk and nutrition category as well. It expanded *Nestle A+* masala millet porridge to Mumbai and its *Milo* energy drink for teenagers to key southern markets. *Milkmaid* and *Peptamen* continued to receive a positive consumer response.
- The prepared dishes and cooking aids business maintained growth momentum across the portfolio, bolstered by brand communications, media investments, shopper engagement and innovations aimed at developing the market across town classes, especially in small towns and villages (RURBAN).
- Confectionery delivered healthy growth led by *Kitkat* and *Munch* chocolate bars and aided by new launches such as *Milkybar* caramel, *Munch* fruity and *Polo* watermelon. During the quarter, NEST forayed into the premium segment for *Kitkat* with the launch of three variants.
- In the petcare business, *Felix* wet cat food continued to receive positive feedback from trade and customers, with e-commerce playing a pivotal role.
- Over the past seven years, NEST has launched a total of 130 products. The company continues to focus on innovation and recently launched *Maggi* Korean noodles, *Maggi* oats noodles with millets, and *Gerber* puffs.
- The e-commerce channel delivered strong growth, contributing 7% of domestic sales for the quarter. Organised trade also fared well on the back of festive walk-ins and new launches.
- The company expanded direct coverage by adding 5,300 villages this quarter, reaching a total of over 196,000 villages which is close to its target of 200,000.
- The out-of-home channel continued to accelerate, driven by a focus on innovation, new geographies, and penetration in emerging channels.
- NEST has received a land allotment letter from the Odisha government for its upcoming factory in the state.
- The board has declared a third interim dividend of Rs 7/sh for FY24, amounting to Rs 6.7bn.
- The board has approved the slump sale of the Nestle Business Services (NBS) division of the company to Purina PetCare India, a 100% subsidiary of parent Nestlé S.A., for an aggregate consideration of Rs 798mn. The transaction will be effective from 1 Jul 2024, subject to customary closing conditions.

## Valuation methodology

Despite a challenging environment, NEST continues to deliver a strong performance in domestic markets, supported by consumer engagement, new launches and an increasing reach in rural markets. We expect sustained, profitable growth underpinned by continued investments in innovation, premiumisation and direct reach expansion with a rural focus.

The stock is trading at 66.6x/55.6x on FY25E/FY26E EPS. We introduce FY26 estimates and roll valuations over from CY25E to FY26E. Our TP remains at Rs 2,826 based on an unchanged 65x P/E multiple – in line with the long-term average.

## 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	14.3	4,876	5,980	BUY
Dabur India	DABUR IN	11.5	534	673	BUY
Godrej Consumer Products	GCPL IN	15.1	1,217	1,363	HOLD
Hindustan Unilever	HUVR IN	69.1	2,417	2,895	BUY
ITC	ITC IN	62.9	415	532	BUY
Marico	MRCO IN	8.2	522	618	BUY
Nestle India	NEST IN	28.4	2,423	2,826	BUY
Zydus Wellness	ZYWL IN	1.3	1,637	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 8 Feb 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	CY21A	CY22A	FY24E	FY25E	FY26E
<b>Total revenue</b>	<b>147,406</b>	<b>168,969</b>	<b>243,176</b>	<b>215,459</b>	<b>245,315</b>
EBITDA	35,664	37,125	57,013	53,218	62,383
Depreciation	3,910	4,030	5,602	6,005	6,005
EBIT	31,754	33,095	51,411	47,213	56,378
Net interest inc./(exp.)	(2,017)	(1,546)	(1,579)	(1,353)	(1,353)
Other inc./(exp.)	1,202	1,010	1,524	1,293	1,473
Exceptional items	2,365	0	9	0	0
EBT	28,573	32,560	51,346	47,153	56,498
Income taxes	7,389	8,655	13,247	12,071	14,503
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>21,184</b>	<b>23,905</b>	<b>38,100</b>	<b>35,082</b>	<b>41,995</b>
Adjustments	2,365	0	9	0	0
<b>Adjusted net profit</b>	<b>23,549</b>	<b>23,905</b>	<b>38,108</b>	<b>35,082</b>	<b>41,995</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	CY21A	CY22A	FY24E	FY25E	FY26E
Accounts payables	17,482	19,338	28,963	24,852	28,815
Other current liabilities	1,703	2,310	2,310	2,310	2,310
Provisions	34,240	33,659	47,735	42,477	48,140
Debt funds	341	300	300	300	300
Other liabilities	9,112	9,589	9,665	9,637	9,667
Equity capital	964	964	964	964	964
Reserves & surplus	18,500	23,628	29,457	34,825	41,251
Shareholders' fund	19,464	24,592	30,421	35,789	42,215
<b>Total liab. and equities</b>	<b>82,341</b>	<b>89,787</b>	<b>119,394</b>	<b>115,365</b>	<b>131,448</b>
Cash and cash eq.	7,185	9,266	15,481	4,188	3,656
Accounts receivables	1,660	1,919	2,665	2,361	2,688
Inventories	15,927	19,288	26,310	22,575	26,176
Other current assets	1,942	1,963	2,825	2,503	2,850
Investments	7,740	7,775	7,775	7,775	7,775
Net fixed assets	26,530	27,058	35,473	49,468	59,255
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	25,024	22,654	25,207
<b>Total assets</b>	<b>82,341</b>	<b>89,787</b>	<b>119,394</b>	<b>115,365</b>	<b>131,448</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	CY21A	CY22A	FY24E	FY25E	FY26E
<b>Cash flow from operations</b>	<b>22,360</b>	<b>27,374</b>	<b>59,286</b>	<b>36,140</b>	<b>54,439</b>
Capital expenditures	(7,348)	(5,499)	(13,000)	(20,000)	(17,000)
Change in investments	(13,523)	1,288	0	0	0
Other investing cash flows	1,668	294	(4,746)	3,634	(1,050)
<b>Cash flow from investing</b>	<b>(19,203)</b>	<b>(3,917)</b>	<b>(17,746)</b>	<b>(16,366)</b>	<b>(18,050)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(917)	(980)	(1,579)	(1,353)	(1,353)
Dividends paid	(19,283)	(20,247)	(32,270)	(29,714)	(35,569)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(20,200)</b>	<b>(21,227)</b>	<b>(33,849)</b>	<b>(31,067)</b>	<b>(36,922)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(17,043)</b>	<b>2,229</b>	<b>7,691</b>	<b>(11,293)</b>	<b>(533)</b>
<b>Closing cash &amp; cash eq.</b>	<b>7,102</b>	<b>7,791</b>	<b>15,481</b>	<b>4,188</b>	<b>3,656</b>

### Per Share

Y/E 31 Mar (Rs)	CY21A	CY22A	FY24E	FY25E	FY26E
Reported EPS	222.5	247.9	39.5	36.4	43.6
Adjusted EPS	244.2	247.9	39.5	36.4	43.6
Dividend per share	200.0	210.0	33.5	30.8	36.9
Book value per share	20.2	25.5	31.6	37.1	43.8

### Valuations Ratios

Y/E 31 Mar (x)	CY21A	CY22A	FY24E	FY25E	FY26E
EV/Sales	15.8	13.8	9.6	10.8	9.5
EV/EBITDA	65.5	62.9	41.0	43.9	37.4
Adjusted P/E	9.9	9.8	61.3	66.6	55.6
P/BV	120.0	95.0	76.8	65.3	55.3

### DuPont Analysis

Y/E 31 Mar (%)	CY21A	CY22A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	73.4	74.2	74.4	74.3
Interest burden (PBT/EBIT)	90.0	98.4	99.9	99.9	100.2
EBIT margin (EBIT/Revenue)	21.5	19.6	21.1	21.9	23.0
Asset turnover (Rev./Avg TA)	179.0	188.2	203.7	186.8	186.6
Leverage (Avg TA/Avg Equity)	4.2	3.7	3.9	3.2	3.1
Adjusted ROAE	108.8	97.2	125.2	98.0	99.5

### Ratio Analysis

Y/E 31 Mar	CY21A	CY22A	FY24E	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	10.4	14.6	43.9	(11.4)	13.9
EBITDA	11.4	4.1	53.6	(6.7)	17.2
Adjusted EPS	13.1	1.5	(84.1)	(7.9)	19.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	24.2	22.0	23.4	24.7	25.4
EBIT margin	21.5	19.6	21.1	21.9	23.0
Adjusted profit margin	16.0	14.1	15.7	16.3	17.1
Adjusted ROAE	108.8	97.2	125.2	98.0	99.5
ROCE	160.3	133.0	167.3	130.8	132.6
<b>Working capital days (days)</b>					
Receivables	4	4	4	4	4
Inventory	92	91	91	91	91
Payables	101	91	100	100	100
<b>Ratios (x)</b>					
Gross asset turnover	2.4	2.5	6.9	4.4	4.1
Current ratio	1.0	1.1	1.2	0.9	0.9
Net interest coverage ratio	15.7	21.4	32.6	34.9	41.7
Adjusted debt/equity	1.7	1.2	1.0	0.8	0.7

Source: Company, BOBCAPS Research | Note: TA = Total Assets | FY24 is for 15 months due to a change in year-end from December to March

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**BUY** – Expected return >+15%

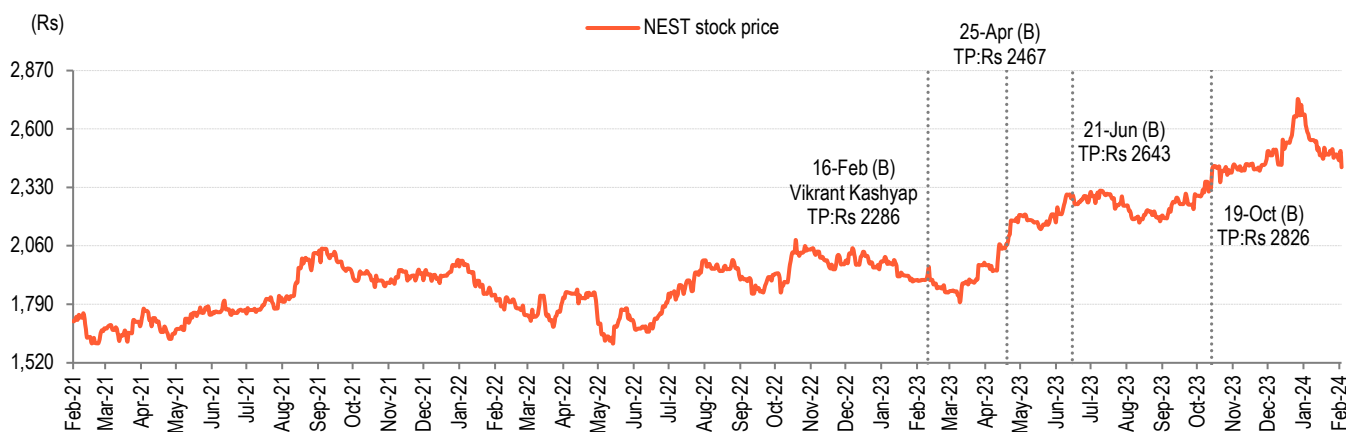
**HOLD** – Expected return from -6% to +15%

**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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