

HOLD

TP: Rs 2,826 | ▲ 10%

NESTLE INDIA

Consumer Staples

25 April 2024

Robust growth across portfolio

- Strong growth witnessed across geographies driven by sustained growth in domestic markets and healthy double-digit growth in exports
- Gross margin improved by 300bps YoY to 56.8% and EBITDA margin expanded by 290bps YoY during the quarter
- Reduce to HOLD with unchanged TP of Rs 2,826 as we watch for developments related to sugar content in infant foods

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Growth momentum in domestic business sustained: NEST delivered revenue growth of 9.3% YoY in the Mar quarter to Rs 52.7bn, with domestic sales crossing the Rs 50bn mark for the first time in a quarter, registering growth of 8.9%, despite challenges posed by rising food inflation and volatile commodity prices. Exports showed healthy recovery during the quarter, growing 19% YoY. Gross margin improved 300bps YoY to 56.8% and EBITDA margin 290bps YoY to 25.6%. The Out-of-Home business reported strong growth and e-commerce sustained its upward trajectory, contributing 6.8% of sales. The board declared a final dividend of Rs 8.5 per share.

Momentum across portfolios: In FY24, confectionery delivered a strong performance, fuelled by KitKat – making India the second-largest market for the brand globally. The beverages business too recorded a robust performance. Milk products and nutrition witnessed strong growth despite inflationary pressures. Prepared dishes and cooking aids registered strong growth across the portfolio led by MAGGI noodles and MAGGI Masala-ae-Magic.

Nestlé to launch NESPRESSO in India: NESPRESSO is a pioneer of premium coffees and will launch its exclusive range in India by the end of 2024. NESPRESSO coffees and machines will be available in both Original and Professional systems. NEST expects to open its first NESPRESSO boutique in Delhi, before expanding to other key cities. NESPRESSO will also be sold online through e-commerce platforms.

Reduce to HOLD: NEST continues to deliver a strong performance in domestic markets amid a challenging environment. We expect sustained, profitable growth underpinned by continued investments in innovation and direct reach expansion with a rural focus. The stock is trading at 71.8x/59.0x on FY25E/FY26E EPS. We maintain our TP at Rs 2,826 based on an unchanged 65x P/E in line with the long-term average. However, we reduce our rating to HOLD from BUY as we wait for developments on the sugar content in infant foods and take into account the recent rise in stock price.

Key changes

Target	Rating
◀ ▶	▼

Ticker/Price	NEST IN/Rs 2,563
Market cap	US\$ 30.1bn
Free float	37%
3M ADV	US\$ 30.5mn
52wk high/low	Rs 2,769/Rs 2,047
Promoter/FPI/DII	63%/12%/25%

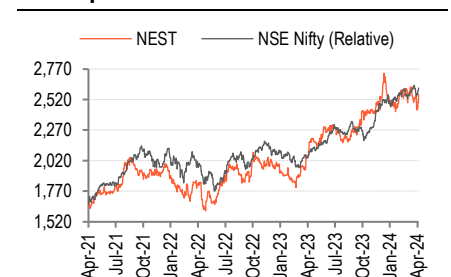
Source: NSE | Price as of 25 Apr 2024

Key financials

Y/E 31 Mar	CY22A	FY24P	FY25E
Total revenue (Rs mn)	168,969	243,939	215,459
EBITDA (Rs mn)	37,125	58,198	53,218
Adj. net profit (Rs mn)	23,905	39,136	34,412
Adj. EPS (Rs)	247.9	40.7	35.7
Consensus EPS (Rs)	247.9	40.7	35.3
Adj. ROAE (%)	97.2	117.4	89.0
Adj. P/E (x)	10.3	63.0	71.8
EV/EBITDA (x)	66.4	42.3	46.5
Adj. EPS growth (%)	1.5	(83.6)	(12.3)

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

Stock performance



Source: NSE

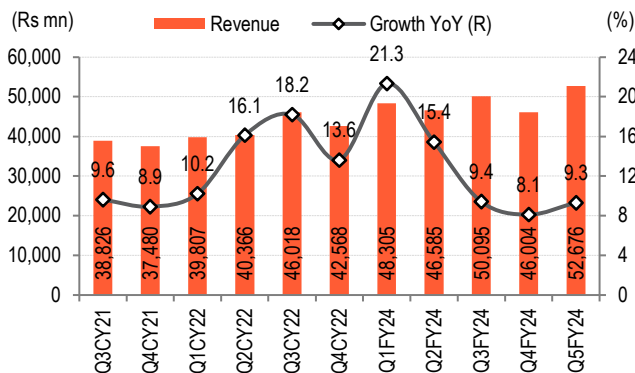


Fig 1 – Financial performance

(Rs mn)	Q4FY24	Q3FY24	Q1FY24	QoQ (%)	YoY (%)	FY24	CY22	YoY (%)
Revenue	52,676	46,004	48,305	14.5	9.0	243,939	168,759	44.5
EBITDA	13,488	10,951	10,955	23.2	23.1	58,198	37,372	55.7
Adj. PAT	9,241	7,629	7,366	21.1	25.5	39,337	24,156	62.8
Gross Margin (%)	56.8	58.6	53.8	(180bps)	300bps	56.1	54.2	190bps
EBITDA Margin (%)	25.6	23.8	22.7	180bps	290bps	23.9	22.1	180bps
Adj. PAT Margin (%)	17.7	16.6	15.3	110bps	240bps	16.1	14.1	200bps

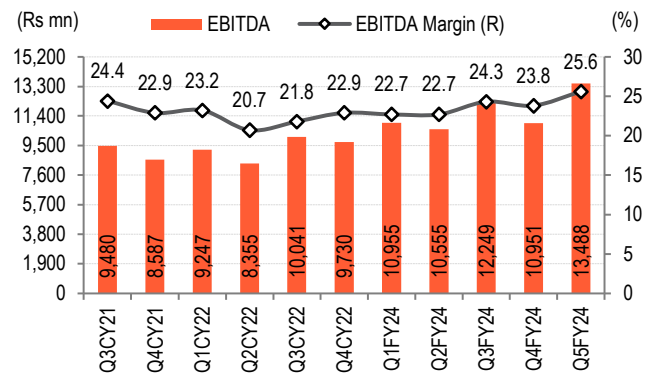
Source: Company, BOBCAPS Research

Fig 2 – Quarterly revenue growth



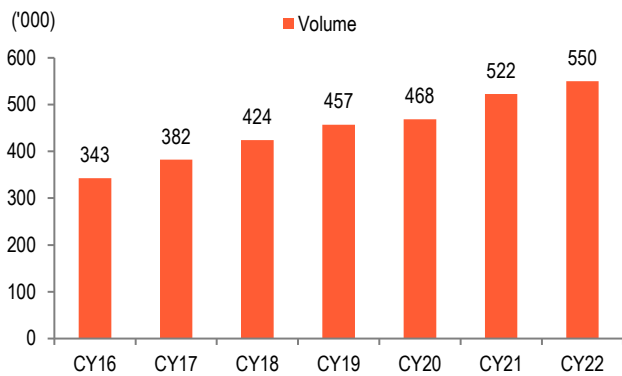
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and Margin



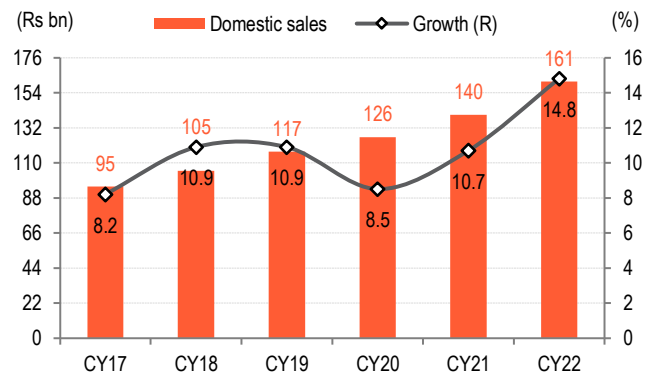
Source: Company, BOBCAPS Research

Fig 4 – Annual volumes



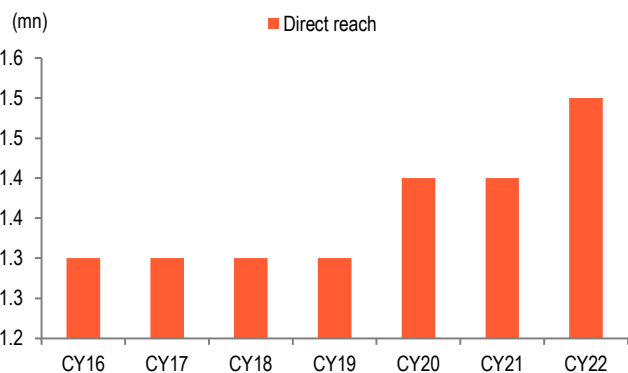
Source: Company, BOBCAPS Research

Fig 5 – Domestic sales growth



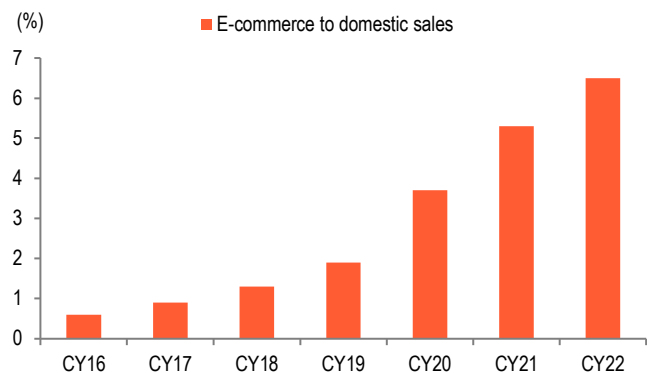
Source: Company, BOBCAPS Research

Fig 6 – Direct reach



Source: Company, BOBCAPS Research

Fig 7 – E-commerce share



Source: Company, BOBCAPS Research

Key result takeaways

- NEST delivered strong growth despite challenges posed by rising food inflation and volatile commodity prices. The company witnessed strong growth momentum across its product portfolio led by a combination of pricing and mix.
- Domestic sales crossed Rs 50bn this quarter, a notable milestone for the company.
- During the year, confectionery delivered a strong performance, fuelled by KitKat, making India the second-largest market for the brand globally.
- The beverages business recorded a robust performance. NESCAFÉ has introduced its coffee to over 30mn households in India over the last seven years.
- Milk products and nutrition witnessed strong growth despite inflationary pressures. Prepared dishes and cooking aids registered strong growth across the portfolio led by MAGGI Noodles and MAGGI Masala-ae-Magic. India emerged as MAGGI's largest market worldwide.
- The Out-of-Home business reported strong growth. The company continued to accelerate rapidly by focusing on relevant innovations and robust penetration in emerging channels. Geographical expansion beyond metros into Tier-1 towns, tapping tourist hot spots and focusing on geographical clusters also led to growth.
- E-commerce sustained its upward trajectory, contributing to 6.8% of sales. NEST continued to accelerate with significant growth in quick commerce along with click & mortar, driven by brands like KitKat and MAGGI Noodles. Quick Commerce growth was aided by new user acquisition and targeted digital communication across various touchpoints
- The company remained steadfast on its Rurban (rural-urban) journey and expanded to over 200,000 villages, marking a significant milestone in the journey.
- The company launched NESPRESSO coffees and machines and it will soon be available in India. In recent years, coffee consumption in India has witnessed a surge, with a discernible trend towards in-home consumption.
- India is one of the fastest-growing coffee markets for Nestlé. The first NESPRESSO boutique is intended to be opened in Delhi, before expanding to other key cities. NESPRESSO will also be sold online through e-commerce platforms.
- The company is entering into a definitive agreement to form a joint venture with Dr. Reddy's. This joint venture will allow NEST to bring its science-backed nutritional solutions to more consumers across the country by leveraging Dr. Reddy's robust retail and distribution network.
- The joint venture company would be formed with Dr Reddy's holding 51% and Nestlé India 49%. Nestlé India will have a call option to increase shareholding up to 60% after six years at a fair market value. Dr Reddy's shall continue to hold at least 40% of the shareholding after Nestlé exercises its call option.
- Select brands will be licensed by the JV partners to the JV company. The Nestlé Group will license brands such as Nature's Bounty, Osteo Bi-Flex, Ester-C,

Resource High Protein, Optifast, Resource Diabetic, Peptamen, Resource Renal and Resource Dialysis.

- Dr. Reddy's will license brands such as Rebalanz, Celevida, Antoxid, Kidrich-D3, Becozinc in the nutrition, and OTC segments. The JV company is expected to become operational in Q2FY25.

Valuation methodology

NEST continues to deliver a strong performance in domestic markets amid a challenging environment. We expect sustained, profitable growth underpinned by continued investments in innovation and direct reach expansion with a rural focus. The stock is trading at 71.8x/59.0x on FY25E/FY26E EPS.

We maintain our TP at Rs 2,826 based on an unchanged 65x P/E in line with the long-term average. However, we reduce our rating to HOLD from BUY as we remain watchful of developments related to sugar content in infant foods and the recent rise in NEST's stock price.

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	14.2	4,844	5,980	BUY
Dabur India	DABUR IN	10.9	506	673	BUY
Godrej Consumer Products	GCPL IN	14.9	1,202	1,363	HOLD
Hindustan Unilever	HUVR IN	63.8	2,231	2,895	BUY
ITC	ITC IN	66.4	438	532	BUY
Marico	MRCO IN	8.0	510	618	BUY
Nestle India	NEST IN	30.1	2,563	2,826	HOLD
Tata Consumer Products	TATACONS IN	12.8	1,106	1,330	BUY
Zydus Wellness	ZYWL IN	1.3	1,671	1,531	HOLD

Source: BOBCAPS Research, NSE | Price as of 25 Apr 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	CY21A	CY22A	FY24P	FY25E	FY26E
Total revenue	147,406	168,969	243,939	215,459	245,162
EBITDA	35,664	37,125	58,198	53,218	63,172
Depreciation	3,910	4,030	5,378	6,905	6,905
EBIT	31,754	33,095	52,820	46,313	56,267
Net interest inc./(exp.)	(2,017)	(1,546)	(1,503)	(1,353)	(1,353)
Other inc./(exp.)	1,202	1,010	1,480	1,293	1,472
Exceptional items	2,365	0	9	0	0
EBT	28,573	32,560	52,788	46,253	56,386
Income taxes	7,389	8,655	13,560	11,841	14,474
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	21,184	23,905	39,227	34,412	41,912
Adjustments	2,365	0	9	0	0
Adjusted net profit	23,549	23,905	39,236	34,412	41,912

Balance Sheet

Y/E 31 Mar (Rs mn)	CY21A	CY22A	FY24P	FY25E	FY26E
Accounts payables	17,482	19,338	22,379	24,852	28,571
Other current liabilities	1,703	2,310	1,769	1,769	1,769
Provisions	34,240	33,659	31,788	43,486	49,121
Debt funds	341	300	311	311	311
Other liabilities	9,112	9,589	15,574	15,641	15,671
Equity capital	964	964	964	964	964
Reserves & surplus	18,500	23,628	32,445	37,710	44,123
Shareholders' fund	19,464	24,592	33,409	38,674	45,087
Total liab. and equities	82,341	89,787	105,231	124,733	140,530
Cash and cash eq.	7,185	9,266	7,589	8,726	9,139
Accounts receivables	1,660	1,919	3,005	2,361	2,687
Inventories	15,927	19,288	20,894	22,575	25,954
Other current assets	1,942	1,963	2,750	2,503	2,848
Investments	7,740	7,775	4,639	4,639	4,639
Net fixed assets	26,530	27,058	30,557	43,651	52,447
CWIP	2,462	3,584	17,417	17,417	17,417
Intangible assets	0	0	0	0	0
Deferred tax assets, net	258	256	0	0	0
Other assets	18,638	18,679	18,381	22,860	25,400
Total assets	82,341	89,787	105,231	124,733	140,530

Cash Flows

Y/E 31 Mar (Rs mn)	CY21A	CY22A	FY24P	FY25E	FY26E
Cash flow from operations	22,360	27,374	41,748	54,757	55,301
Capital expenditures	(7,348)	(5,499)	(18,827)	(20,000)	(17,000)
Change in investments	(13,523)	1,288	1,898	0	0
Other investing cash flows	1,668	294	4,554	(3,120)	(1,038)
Cash flow from investing	(19,203)	(3,917)	(12,374)	(23,120)	(18,038)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(917)	(980)	(1,267)	(1,353)	(1,353)
Dividends paid	(19,283)	(20,247)	(30,082)	(29,147)	(35,499)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(20,200)	(21,227)	(31,349)	(30,499)	(36,852)
Chg in cash & cash eq.	(17,043)	2,229	(1,976)	1,138	412
Closing cash & cash eq.	7,102	7,791	7,589	8,726	9,139

Per Share

Y/E 31 Mar (Rs)	CY21A	CY22A	FY24P	FY25E	FY26E
Reported EPS	222.5	247.9	40.7	35.7	43.5
Adjusted EPS	244.2	247.9	40.7	35.7	43.5
Dividend per share	200.0	210.0	34.5	30.2	36.8
Book value per share	202	255	34.7	40.1	46.8

Valuations Ratios

Y/E 31 Mar (x)	CY21A	CY22A	FY24P	FY25E	FY26E
EV/Sales	16.8	14.6	10.1	11.5	10.1
EV/EBITDA	69.3	66.5	42.3	46.4	39.1
Adjusted P/E	10.5	10.3	63.0	71.8	59.0
P/BV	126.9	100.5	74.0	63.9	54.8

DuPont Analysis

Y/E 31 Mar (%)	CY21A	CY22A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	73.4	74.3	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	21.7	21.5	23.0
Asset turnover (Rev./Avg TA)	179.0	188.2	231.8	172.7	174.5
Leverage (Avg TA/Avg Equity)	4.2	3.7	3.1	3.2	3.1
Adjusted ROAE	108.8	97.2	117.4	89.0	93.0

Ratio Analysis

Y/E 31 Mar	CY21A	CY22A	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	10.4	14.6	44.4	(11.7)	13.8
EBITDA	11.4	4.1	56.8	(8.6)	18.7
Adjusted EPS	13.1	1.5	(83.6)	(12.3)	21.8
Profitability & Return ratios (%)					
EBITDA margin	24.2	22.0	23.9	24.7	25.8
EBIT margin	21.5	19.6	21.7	21.5	23.0
Adjusted profit margin	16.0	14.1	16.1	16.0	17.1
Adjusted ROAE	108.8	97.2	117.4	89.0	93.0
ROCE	160.3	133.0	156.6	118.8	123.9
Working capital days (days)					
Receivables	4	4	4	4	4
Inventory	92	91	71	91	91
Payables	101	91	76	100	100
Ratios (x)					
Gross asset turnover	3.2	3.3	4.1	2.7	2.6
Current ratio	1.0	1.1	0.9	0.9	0.9
Net interest coverage ratio	15.7	21.4	35.1	34.2	41.6
Adjusted debt/equity	1.7	1.2	0.9	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%

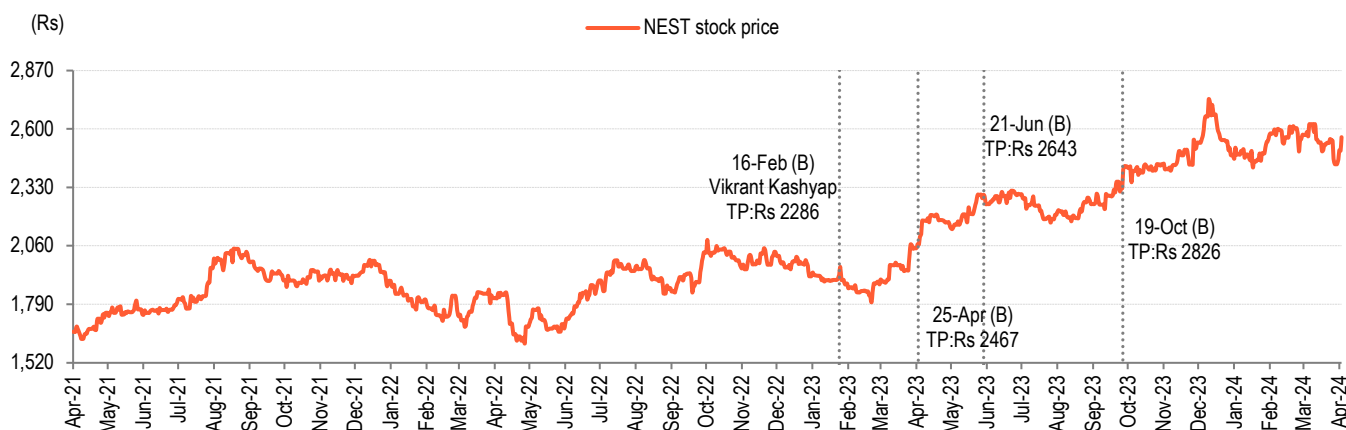
HOLD – Expected return from -6% to +15%

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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