

Consumer Staples | Q4CY22 Result Update

Recovery expected in ensuing quarters; Maintain BUY

- Nestlé's Q4CY22 EBITDA came inline but revenue and APAT missed our estimates. The company reported 13.8% YoY growth in the domestic market driven by healthy volume and mix led growth while exports business posted 17.1% YoY increase.
- On a 3-Yr CAGR basis, revenues increased by 10.6% - indicates acceleration in overall growth. E-com channel posted strong 46% growth fueled by new formats - 'quick commerce' and 'click & mortar'. E-com grew 41% in CY22 contributing 6.5% in domestic sales.
- GM decline by 210bps YoY mainly attributed to higher inflation related to cereals, grains and coffee. While edible oil, crude oil and packaging costs witnessed softening by the end of the quarter, milk is expected to remain firm due to lumpy skin disease in H2CY22.
- Though revenue and APAT performance during Q3 was below our estimate, we have broadly maintained CY23/24E EPS estimates as we believe that the demand for Nestlé's products would improve with the improvement in the economic uptrend. As the company has leadership position and unique positioning in most of the categories, we believe that it's growth rate would remain high. Further, Nestlé's margins would improve gradually with softening in commodity prices. We continue to value the stock at 65x CY24E EPS, and arrived at TP of Rs 23,228. Maintain BUY.

Revenue and APAT was below; EBITDA in line

Net Sales stood at Rs 42.6bn, up 13.6% YoY in Q4CY22 (on the base of 8.9% growth) - came 3.5% below our estimate. On 3-yr CAGR basis, revenue increased 10.6% - was an encouraging performance. Out of home categories witnessed robust growth in Q4 with contribution from new business initiatives. Domestic business reported 13.8% growth driven by healthy volume and price growth. EBITDA increased 13.3% YoY basis to Rs 9.7bn - came in line with estimate. EBITDA margin contracted by 10bps to 22.9% as 210bps increase in RM cost was partially offset by 80/120bps decrease in employee cost/ other expenses. RPAT grew by 65.5% YoY to Rs 6.2bn. Excluding extraordinary item, APAT grew by 2% YoY to Rs 6.2bn - was 5.3% below our estimate.

Q4CY22 Result (Rs Mn)

Particulars	Q4CY22	Q4CY21	YoY (%)	Q3CY22	QoQ (%)
Revenue	42,568	37,480	13.6	46,018	(7.5)
Total Expense	32,838	28,893	13.7	35,978	(8.7)
EBITDA	9,730	8,587	13.3	10,041	(3.1)
Depreciation	987	1,060	(6.9)	982	0.5
EBIT	8,744	7,527	16.2	9,059	(3.5)
Other Income	296	274	8.0	306	(3.6)
Interest	448	436	2.8	372	20.5
EBT	8,591	5,000	71.8	8,994	(4.5)
Tax	2,310	1,205	91.7	2,379	(2.9)
RPAT	6,281	3,795	65.5	6,615	(5.1)
APAT	6,281	6,160	2.0	6,615	(5.1)
			(bps)		(bps)
Gross Margin (%)	54.9	56.9	(206)	52.7	218
EBITDA Margin (%)	22.9	22.9	(5)	21.8	104
NPM (%)	14.8	10.1	463	14.4	38
Tax Rate (%)	26.9	24.1	279	26.4	44
EBIT Margin (%)	20.5	20.1	46	19.7	85

CMP	Rs 19,629
Target / Upside	Rs 23,228 / 18%
NIFTY	18,036

Scrip Details

Equity / FV	Rs 964mn / Rs 10		
Market Cap	Rs 1,893bn		
	USD 22.9bn		
52-week High/Low	Rs 21,049/ 16,000		
Avg. Volume (no)	55,344		
Bloom Code	NEST IN		
Price Performance	1M	3M	12M
Absolute (%)	(2)	(2)	8
Rel to NIFTY (%)	(1)	0	4

Shareholding Pattern

	Jun'22	Sep'22	Dec'22
Promoters	62.8	62.8	62.8
MF/Banks/FIs	7.9	9.1	9.1
FIs	12.4	11.7	12.1
Public / Others	17.0	16.5	16.1

Valuation (x)

	CY22P	CY23E	CY24E
P/E	79.2	63.8	54.9
EV/EBITDA	50.7	42.7	37.0
ROE (%)	105.2	107.4	97.5
RoACE (%)	111.1	112.4	101.9

Estimates (Rs bn)

	CY22P	CY23E	CY24E
Revenue	169.0	189.5	211.6
EBITDA	37.1	44.2	51.1
PAT	23.9	29.7	34.4
EPS (Rs.)	247.9	307.7	357.3

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Healthy growth continues in core categories

The domestic business posted 13.8% expansion largely led by volume and mix growth. Beverages posted double-digit growth led by NESCAFÉ CLASSIC, SUNRISE, GOLD, Ready to drink. Further, though milk products faced challenges due to unprecedented milk prices - milk products and nutrition category witnessed a strong growth across brands led by MILKMAID. Foods continued strong growth driven by healthy product mix, pricing and volume growth in MAGGI noodles which was helped by media and distribution expansion. The confectionery category posted robust growth driven by KITKAT and MUNCH.

Exhibit 1: Actual V/s DART Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	42,568	44,124	(3.5)	
EBITDA	9,730	9,994	(2.6)	
EBITDA margin %	22.9	22.7	20bps	
APAT	6,281	6,629	(5.3)	Higher than estimated tax rate

Source: Company, DART

Exhibit 2: Change in estimates

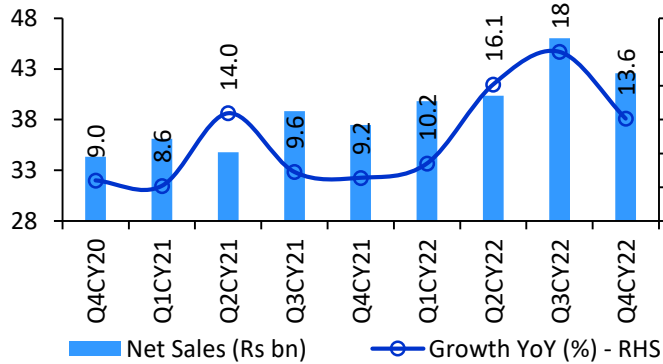
Particulars (Rs mn)	CY23E			CY24E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	1,89,476	1,89,585	(0.1)	2,11,624	2,11,614	0.0
EBITDA	44,232	44,861	(1.4)	51,080	51,131	(0.1)
EBITDA margin (%)	23.3	23.7	(30bps)	24.1	24.2	-
PAT	29,671	29,810	(0.5)	34,450	34,279	0.5
EPS (Rs)	307.8	309.2	(0.5)	357.4	355.6	0.5

Source: DART, Company

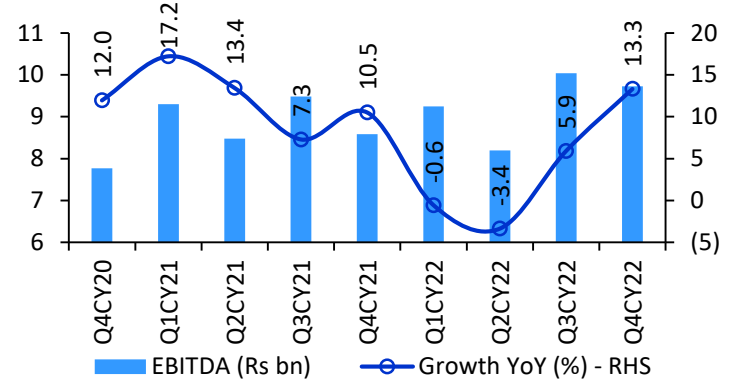
Earning call KTAs

- During the quarter, Nestle has posted sales growth of 13.6% led by volume growth & favorable product mix. The company has reported flattish volume growth during the quarter (126K tons in Q4CY22 vs 127K tons in Q4CY21)
- In CY22, sales grew by 14.5% - highest organic growth over a decade. Moreover, the domestic category sales has doubled across all categories – milk products and nutrition/ prepared dishes and cooking aids/ confectionery/ powdered and liquid beverages/ OOH has grown 9.5/15.6/25/19.2/39% resp. Going ahead, focus remains on driving penetration led volume growth.
- In CY22, NPD grew 5.4% YoY and going ahead the company has 30 new products in pipeline. However, focus would remain to grow 12-15 core brands.
- Nestle is integrating millets into the company's product portfolio and has launched 3 new products under millets – nestle ceregrow, nestle a+ and maggi.
- Ecommerce – contributes 6.5% to sales has grown 41% YoY, further MT & GT which contributes 80% of business continued to grow.
- GM declined 210bps to 54.9% YoY as a result of high inflation in cereals, grains and coffee. Moreover, fresh milk is expected to remain firm due to lumpy skin disease in H2CY22. However, crude oil and packaging material costs have witnessed early signs of softening. We believe in the near term RM inflation would continue to impact GM.
- In Q4'22, Nestle continued double digit growth in mega cities, however there was a drop from 23% growth in Q3'22 to 12% in Q4'22 as a result of price increase in small packs. In addition, the acceleration of rural strategy catered to double digit growth in TC 1 and villages to 19/26% - further aim is to deepen rural reach by penetrating in 120,000 villages by 2024. However, price increase led to deceleration of growth in TC 2-6 from 13% growth in Q3'22 to 5% growth in Q4'22 which has <1Lakh population.

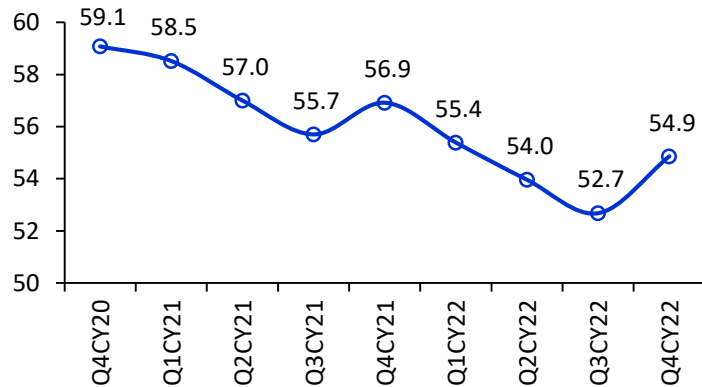
- CAPEX planned for CY23/24E is Rs 13/20bn and would be focused towards food and chocolates. Further, Nestle global has announced Rs 50bn (ex. M&A) capex in India by CY25.
- Nestle has focused on further strengthening distribution network. In CY22 the indirect/direct reach has increased to 3.6/1.5mn from 2.7/1.3mn in CY16.

Exhibit 3: Net Sales and Growth Trend


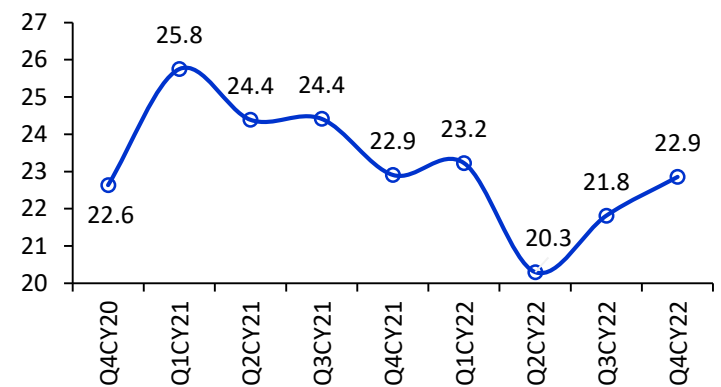
Source: DART, Company

Exhibit 4: EBITDA and EBITDA Growth Trend


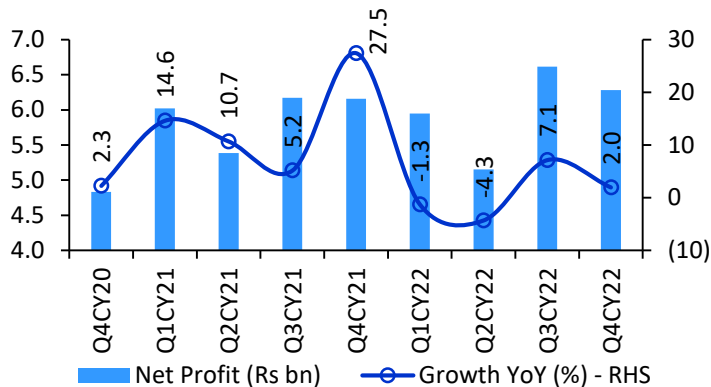
Source: DART, Company

Exhibit 5: Gross margin (%)


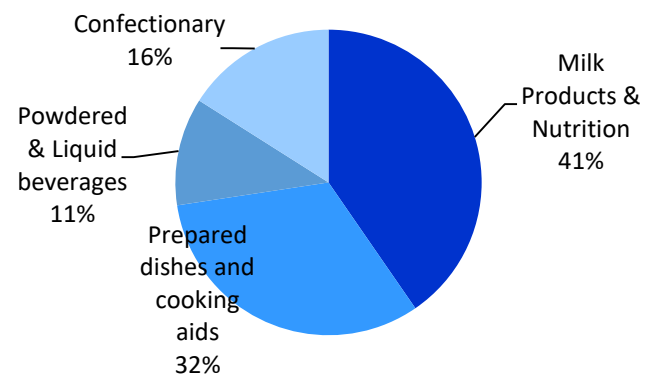
Source: DART, Company

Exhibit 6: EBITDA margin (%)


Source: DART, Company

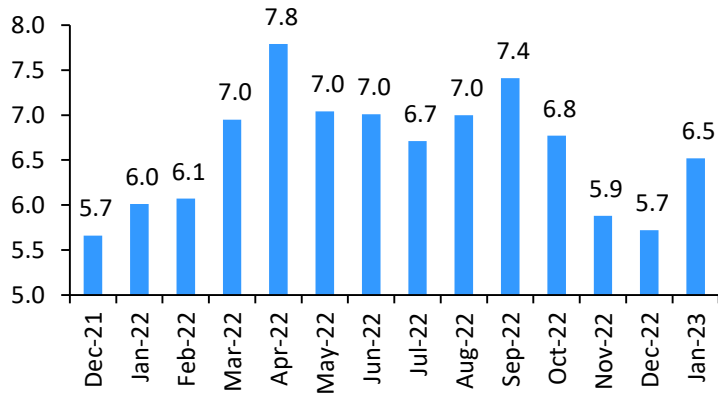
Exhibit 7: Net Profit and Growth Trend


Source: DART, Company

Exhibit 8: Revenue Breakup (CY22)


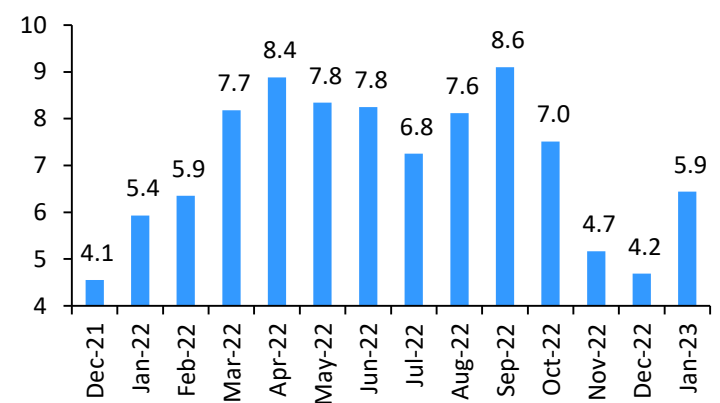
Source: DART, Company

Exhibit 9: CPI Monthwise (YoY %)



Source: DART, Company

Exhibit 10: Food Inflation Monthwise (YoY %)



Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	CY21A	CY22P	CY23E	CY24E
Revenue	147,406	168,970	189,476	211,624
Total Expense	111,742	131,844	145,243	160,543
COGS	63,482	77,499	85,636	94,542
Employees Cost	15,299	16,355	17,663	19,076
Other expenses	32,961	37,991	41,944	46,925
EBIDTA	35,664	37,125	44,232	51,080
Depreciation	3,910	4,030	4,043	4,508
EBIT	31,754	33,095	40,189	46,572
Interest	2,017	1,546	1,700	1,870
Other Income	1,202	1,010	1,162	1,336
Exc. / E.O. items	(2,365)	0	0	0
EBT	28,573	32,560	39,651	46,038
Tax	7,389	8,655	9,980	11,588
RPAT	21,184	23,905	29,671	34,450
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	23,549	23,905	29,671	34,450

Balance Sheet

(Rs Mn)	CY21A	CY22P	CY23E	CY24E
Sources of Funds				
Equity Capital	964	964	964	964
Minority Interest	0	0	0	0
Reserves & Surplus	19,881	23,628	29,680	39,066
Net Worth	20,845	24,592	30,644	40,030
Total Debt	342	300	300	300
Net Deferred Tax Liability	(258)	0	0	0
Total Capital Employed	20,928	24,892	30,945	40,331

Applications of Funds

Net Block	29,939	30,437	39,394	51,886
CWIP	2,462	3,584	6,584	9,584
Investments	7,107	5,602	5,602	5,602
Current Assets, Loans & Advances	27,193	35,716	32,363	32,757
Inventories	15,802	19,288	21,631	24,162
Receivables	1,653	1,919	2,122	2,370
Cash and Bank Balances	7,353	9,712	3,813	1,427
Loans and Advances	608	661	661	661
Other Current Assets	1,144	1,963	1,963	1,963
Less: Current Liabilities & Provisions	45,773	50,446	52,999	59,498
Payables	17,348	19,338	18,056	20,168
Other Current Liabilities	28,425	31,108	34,943	39,330
<i>sub total</i>				
Net Current Assets	(18,580)	(14,730)	(20,635)	(26,741)
Total Assets	20,928	24,892	30,945	40,331

E – Estimates

Important Ratios

Particulars	CY21A	CY22P	CY23E	CY24E
(A) Margins (%)				
Gross Profit Margin	56.9	54.1	54.8	55.3
EBIDTA Margin	24.2	22.0	23.3	24.1
EBIT Margin	21.5	19.6	21.2	22.0
Tax rate	25.9	26.6	25.2	25.2
Net Profit Margin	14.4	14.1	15.7	16.3
(B) As Percentage of Net Sales (%)				
COGS	43.1	45.9	45.2	44.7
Employee	10.4	9.7	9.3	9.0
Other	22.4	22.5	22.1	22.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	15.7	21.4	23.6	24.9
Inventory days	39	42	42	42
Debtors days	4	4	4	4
Average Cost of Debt	584.8	481.7	566.2	622.8
Payable days	43	42	35	35
Working Capital days	(46)	(32)	(40)	(46)
FA T/O	4.9	5.6	4.8	4.1
(D) Measures of Investment				
AEPS (Rs)	244.2	247.9	307.7	357.3
CEPS (Rs)	284.8	289.7	349.7	404.0
DPS (Rs)	368.8	196.0	200.0	235.0
Dividend Payout (%)	151.0	79.1	65.0	65.8
BVPS (Rs)	216.2	255.0	317.8	415.2
RoANW (%)	103.2	105.2	107.4	97.5
RoACE (%)	123.9	111.1	112.4	101.9
RoAIC (%)	391.6	230.2	190.0	141.1
(E) Valuation Ratios				
CMP (Rs)	19629	19629	19629	19629
P/E	80.4	79.2	63.8	54.9
Mcap (Rs Mn)	1,892,609	1,892,609	1,892,609	1,892,609
MCap/ Sales	12.8	11.2	10.0	8.9
EV	1,884,965	1,881,024	1,886,923	1,889,309
EV/Sales	12.8	11.1	10.0	8.9
EV/EBITDA	52.9	50.7	42.7	37.0
P/BV	90.8	77.0	61.8	47.3
Dividend Yield (%)	1.9	1.0	1.0	1.2
(F) Growth Rate (%)				
Revenue	10.4	14.6	12.1	11.7
EBITDA	11.4	4.1	19.1	15.5
EBIT	12.2	4.2	21.4	15.9
PBT	1.6	14.0	21.8	16.1
APAT	13.1	1.5	24.1	16.1
EPS	13.1	1.5	24.1	16.1

E – Estimates

Cash Flow

Particulars	CY21A	CY22P	CY23E	CY24E
Profit before tax	28,838	32,560	39,651	46,038
Depreciation & w.o.	3,902	4,030	4,043	4,508
Net Interest Exp	0	0	0	0
Direct taxes paid	(7,286)	(8,655)	(9,980)	(11,588)
Change in Working Capital	(1,522)	1,145	(3,888)	(486)
Non Cash	(1,217)	1,401	3,894	4,206
(A) CF from Operating Activities	22,714	30,481	33,719	42,678
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(7,308)	(5,650)	(16,000)	(20,000)
Free Cash Flow	15,406	24,831	17,719	22,678
(Inc.)/ Dec. in Investments	(13,508)	(36)	0	0
Other	0	0	0	0
(B) CF from Investing Activities	(20,816)	(5,685)	(16,000)	(20,000)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	0	(41)	0	0
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	(19,283)	(22,654)	(23,618)	(25,064)
Other	7,039	258	0	0
(C) CF from Financing	(12,244)	(22,437)	(23,618)	(25,064)
Net Change in Cash	(10,346)	2,359	(5,899)	(2,386)
Opening Cash balances	17,699	7,353	9,712	3,813
Closing Cash balances	7,353	9,712	3,813	1,427

E – Estimates

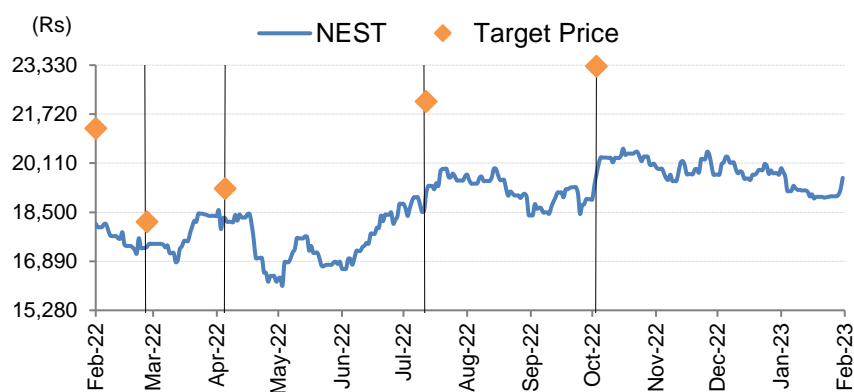
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-22	Buy	21,255	18,126
Mar-22	Reduce	18,184	17,367
Apr-22	Reduce	19,272	18,305
Jul-22	Accumulate	22,130	19,112
Oct-22	BUY	23,286	19,739

*Price as on recommendation date

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