

April 25, 2023

Q1CY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY23E	CY24E	CY23E	CY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	22,600		22,070	
Sales (Rs. m)	1,97,952	2,22,703	1,90,358	2,13,555
% Chng.	4.0	4.3		
EBITDA (Rs. m)	45,744	52,497	44,949	51,972
% Chng.	1.8	1.0		
EPS (Rs.)	311.7	351.6	306.8	349.1
% Chng.	1.6	0.7		

Key Financials - Standalone

Y/e Dec	CY21	CY22	CY23E	CY24E
Sales (Rs. bn)	147	169	198	223
EBITDA (Rs. bn)	35	38	46	52
Margin (%)	24.0	22.2	23.1	23.6
PAT (Rs. bn)	23	24	30	34
EPS (Rs.)	241.8	252.7	311.7	351.6
Gr. (%)	11.2	4.5	23.4	12.8
DPS (Rs.)	200.0	210.0	235.0	200.0
Yield (%)	1.0	1.0	1.1	1.0
RoE (%)	117.6	110.6	108.4	90.1
RoCE (%)	156.2	150.1	147.2	124.6
EV/Sales (x)	13.5	11.7	10.0	8.9
EV/EBITDA (x)	56.0	52.7	43.5	37.9
PE (x)	85.5	81.8	66.3	58.8
P/BV (x)	102.4	81.0	64.6	44.9

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.21,053 / Rs.16,000
Sensex / Nifty	60,131 / 17,769
Market Cap	Rs.1,993bn/ \$ 24,329m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1232.66m

Shareholding Pattern (%)

Promoter's	62.76
Foreign	12.06
Domestic Institution	9.19
Public & Others	15.99
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.1	1.9	13.7
Relative	4.3	0.9	7.0

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Nestle India (NEST IN)

Rating: ACCUMULATE | CMP: Rs20,670 | TP: Rs22,600

Strong volumes neutralize RM price inflation

Quick Pointers:

- ~5% domestic volume growth (ex LUP Maggi 11-12%)
- RM basket mixed, margins expected to improve sequentially from 2Q23

We increase CY23/24 EPS estimates by 1.6%/0.7% following strong revenue performance with 5% volume growth (ex LUP Maggi 11-12%). However, we trim our gross margin estimates by 50bps/20bps in CY23/24 as rising prices of milk (~40% of RM basket) might delay margin recovery. Growth momentum remains intact across large metros & rural markets with growth across all channels like MT, OOH and E-commerce. Medium to long term growth drivers remain intact, led by 1) sustained expansion in rural reach (~20% of sales) 2) availability of capacity in Maggi post expansion 3) huge scope of growth in segments like coffee, RTD & chocolates and 4) channels of future like E-Com as well as newly launched D2C website platform - mynestle.in.

Nestle is expected to gain from lower costs of palm oil, but firm prices of milk, fuel and coffee will curtail gains. However as margins in 2Q22/3Q22 were lower by 130/260bps than 1Q22 levels, expect QoQ margin expansion in next 2 quarters. We factor in EBITDA margin improvement of 100bps in CY23 and 150bps over CY22-24. We estimate 18.0% PAT CAGR over CY22-24. We expect moderate returns given rich valuations of 58.8x CY24 EPS. Maintain Accumulate with a DCF based TP of Rs 22,600 (Rs22,070 earlier).

Sales up by 21.0%, PAT up by 25.8%: Revenues grew by 21% YoY to Rs48.3bn (PLe: Rs45.6bn) with domestic/export sales up by 21.2%/ 24.9%. Gross margins contracted by 149bps YoY to 53.8% (PLe: 54.5%) impacted by higher commodity prices, particularly milk and its derivatives, wheat flour, edible oil, partly offset by better realisations. EBITDA grew by 19.7% YoY to Rs11.1bn (PLe: Rs10.4bn); Margins contracted by 24bps YoY to 23% (PLe:22.8%). Adjusted PAT grew by 25.8% YoY to Rs7.5bn (PLe: Rs6.8bn). Board declares an interim dividend of Rs27/share.

Strong growth across key brands, input pressures moderating: MAGGI noodles, KITKAT, MUNCH, MILKMAID, NESCAFÉ Classic, Sunrise and GOLD reported strong growth led by 1) media campaigns, 2) innovations and 3) increased engagement. We believe MAGGI volumes will recover gradually as price increase in LUP from Rs5 to Rs7 gets absorbed over next 1-2 quarters. We believe NEST will continue to benefit from distribution expansion in rural India (~20% of sales) and emerging channels like E-Com in coming years.

Low base to enable QoQ GM expansion despite firm milk prices: NEST is beginning to see softening in commodity prices across edible oils, wheat and packaging materials. However, cost of milk, fuels, & green coffee is expected to remain firm due to strong demand and price volatility. We expect margins to expand QoQ given relatively benign base in 2Q/3Q23 despite inflation in 50% of RM basket.

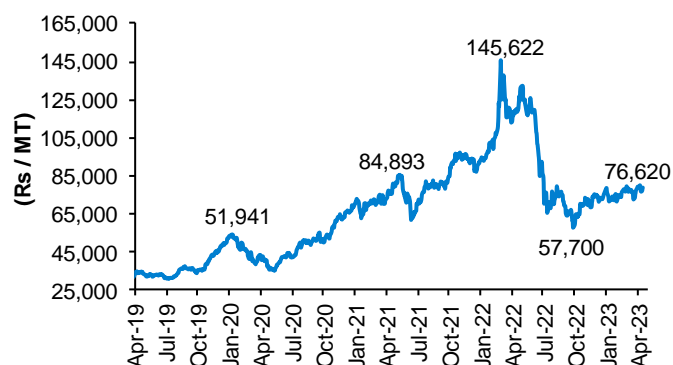
Exhibit 1: 1QCY23 Results: Revenue up 21.0% YoY; Gross margins contract 110bps QoQ

Y/e Dec (Rs mn)	1QCY23	1QCY22	YoY gr. (%)	4QCY22	CY22	CY21	YoY gr. (%)
Net Sales	48,305	39,926	21.0	42,568	168,970	147,406	14.6
Gross Profit	25,990	22,076	17.7	23,353	91,471	83,924	9.0
<i>% of NS</i>	<i>53.8</i>	<i>55.3</i>	<i>-1.5</i>	<i>54.9</i>	<i>54.1</i>	<i>56.9</i>	<i>-2.8</i>
Other Expenses	14,890	12,805	16.3	13,584	53,888	48,498	11.1
EBITDA	11,100	9,271	19.7	9,769	37,583	35,426	6.1
<i>Margins (%)</i>	<i>23.0</i>	<i>23.2</i>	<i>-0.2</i>	<i>22.9</i>	<i>22.2</i>	<i>24.0</i>	<i>-1.8</i>
Depreciation	1,017	1,045	(2.7)	987	4,030	3,910	3.1
Interest	370	356	4.0	448	1,546	2,017	(23.4)
Other Income	337	214	57.1	296	1,010	1,202	(15.9)
PBT	10,049	8,085	24.3	8,630	33,017	30,700	7.5
Tax	2,538	2,115	20.0	2,310	8,655	7,389	17.1
<i>Effective tax rate (%)</i>	<i>25.3</i>	<i>26.2</i>		<i>26.8</i>	<i>26.2</i>	<i>24.1</i>	
Adjusted PAT	7,511	5,969	25.8	6,319	24,362	23,311	4.5

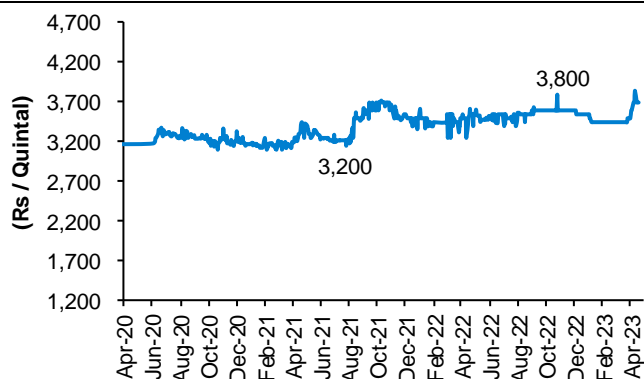
Source: Company, PL

Exhibit 2: Coffee prices down 26.2% YoY and 2.1% QoQ

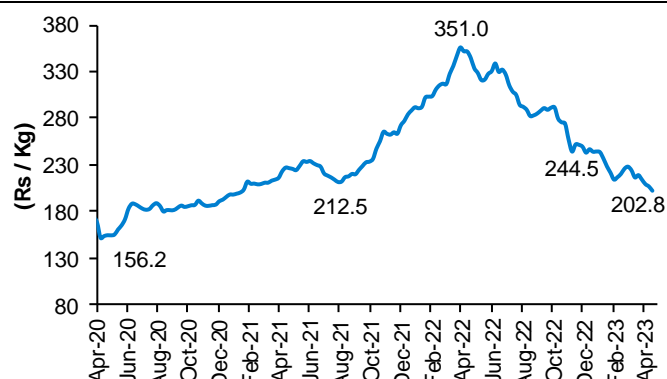

Source: Company, PL

Exhibit 3: Palmoil down 32.3% YoY but up 6.4% QoQ


Source: Company, PL

Exhibit 4: Sugar down 0.1% YoY and 3.6% QoQ


Source: Company, PL

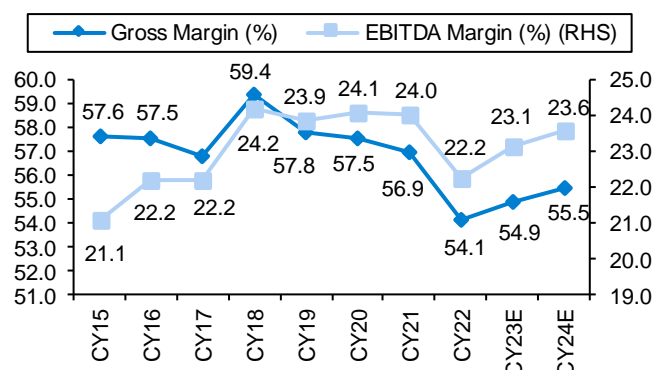
Exhibit 5: SMP prices down 29.8% YoY and 13.2% QoQ


Source: Bloomberg, PL

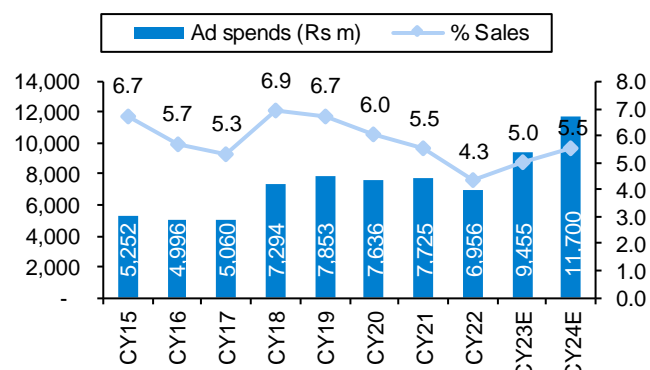
Exhibit 6: Prepared dishes and chocolates to drive long term volume growth

	Y/e March	CY19	CY20	CY21	CY22	CY23E	CY24E
Milk Products	Volume (MT)	1,38,941	1,38,402	1,34,669	134,034	137,385	140,819
	Volume growth	1.4%	-0.4%	-2.7%	-0.5%	2.5%	2.5%
	Sales Value (Rs m)	56,518	61,488	62,686	68,157	77,197	83,083
	Growth in Value	8.9%	8.8%	1.9%	8.7%	13.3%	7.6%
	% of sales	46.0%	46.3%	42.8%	40.6%	39.2%	37.5%
Beverages	Volume (MT)	26,380	20,772	24,507	28,020	30,542	33,596
	Value (Rs m)	15,018	14,763	16,918	20,188	24,205	27,291
	Growth in Volume	-2.3%	-21.3%	18.0%	14.3%	9.0%	10.0%
	Growth in Value	-1.4%	-1.7%	14.6%	19.3%	19.9%	12.8%
	%Sales	12.2%	11.1%	11.6%	12.0%	12.3%	12.3%
Prepared Dishes & Cooking Aids	Volume (MT)	2,64,072	2,81,392	3,27,659	348,225	372,601	421,039
	Value (Rs m)	34,982	39,108	45,501	53,006	63,522	73,574
	Growth in Volume	9.6%	6.6%	16.4%	5.7%	7.0%	13.0%
	Growth in Value	12.7%	11.8%	16.3%	15.7%	19.8%	15.8%
	%Sales	28.5%	29.4%	31.1%	31.6%	32.2%	33.2%
Chocolate & Confectionery	Volume (MT)	49,033	50,358	55,648	62,401	71,761	81,808
	Value (Rs.mn)	16,435	17,301	19,501	22,305	26,163	30,423
	Realisation (Rs./Kg)	335	344	350	357	365	372
	Growth in volume	16.2%	2.7%	10.5%	12.1%	15.0%	14.0%
	Growth in Value	17.3%	5.3%	12.7%	14.4%	17.3%	16.3%
	Growth in Realisations	1.0%	2.5%	2.0%	2.0%	2.0%	2.0%
	% Sales	13.4%	13.0%	13.3%	13.3%	13.3%	13.7%

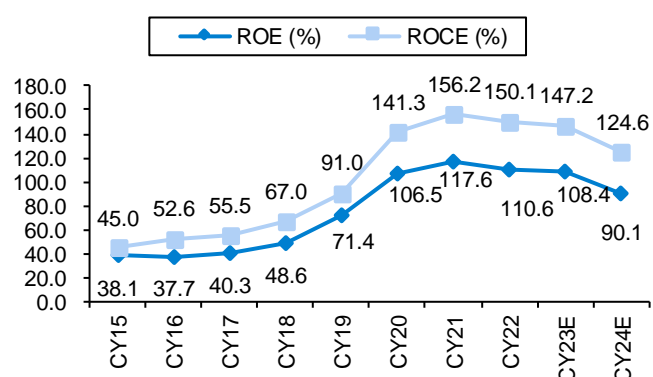
Source: Company, PL

Exhibit 7: Gross Margins to improve in CY23/24


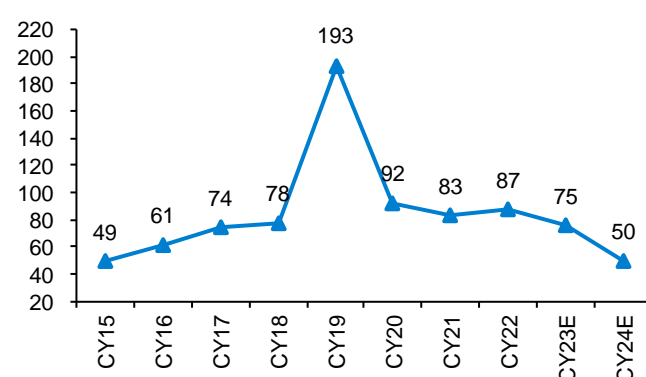
Source: Company, PL

Exhibit 8: Ad spends to increase gradually


Source: Company, PL

Exhibit 9: ROE and ROCE remain healthy


Source: Company, PL

Exhibit 10: Expect lower dividend payout in CY23/24


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY21	CY22	CY23E	CY24E
Net Revenues	1,47,406	1,68,970	1,97,952	2,22,703
YoY gr. (%)	10.4	14.6	17.2	12.5
Cost of Goods Sold	63,482	77,499	89,296	99,162
Gross Profit	83,924	91,471	1,08,656	1,23,541
Margin (%)	56.9	54.1	54.9	55.5
Employee Cost	15,299	16,355	18,713	20,940
Other Expenses	16,879	17,821	22,142	25,624
EBITDA	35,426	37,583	45,744	52,497
YoY gr. (%)	10.2	6.1	21.7	14.8
Margin (%)	24.0	22.2	23.1	23.6
Depreciation and Amortization	3,910	4,030	4,468	5,216
EBIT	31,516	33,553	41,276	47,281
Margin (%)	21.4	19.9	20.9	21.2
Net Interest	2,017	1,546	1,958	2,158
Other Income	1,202	1,010	1,292	685
Profit Before Tax	30,700	33,017	40,610	45,808
Margin (%)	20.8	19.5	20.5	20.6
Total Tax	7,389	8,655	10,559	11,910
Effective tax rate (%)	24.1	26.2	26.0	26.0
Profit after tax	23,311	24,362	30,051	33,898
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	23,311	24,362	30,051	33,898
YoY gr. (%)	11.2	4.5	23.4	12.8
Margin (%)	15.8	14.4	15.2	15.2
Extra Ord. Income / (Exp)	(2,115)	(163)	(515)	(571)
Reported PAT	21,196	24,199	29,537	33,327
YoY gr. (%)	1.8	14.2	22.1	12.8
Margin (%)	14.4	14.3	14.9	15.0
Other Comprehensive Income	(1,514)	1,119	(500)	(500)
Total Comprehensive Income	19,682	25,319	29,037	32,827
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	241.8	252.7	311.7	351.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY21	CY22	CY23E	CY24E
Non-Current Assets				
Gross Block	73,419	76,972	88,675	1,05,989
Tangibles	73,419	76,972	88,675	1,05,989
Intangibles	-	-	-	-
Acc: Dep / Amortization	43,473	46,535	50,746	55,883
Tangibles	43,473	46,535	50,746	55,883
Intangibles	-	-	-	-
Net fixed assets	29,946	30,436	37,929	50,107
Tangibles	29,946	30,436	37,929	50,107
Intangibles	-	-	-	-
Capital Work In Progress	2,462	3,584	13,000	20,000
Goodwill	-	-	-	-
Non-Current Investments	7,599	6,160	6,291	6,377
Net Deferred tax assets	258	256	784	1,380
Other Non-Current Assets	14,746	14,449	14,810	15,180
Current Assets				
Investments	7,430	10,697	3,940	4,432
Inventories	15,927	19,288	22,068	24,046
Trade receivables	1,660	1,919	2,159	2,428
Cash & Bank Balance	557	932	78	(3,250)
Other Current Assets	1,141	1,381	1,519	1,671
Total Assets	82,341	89,787	1,03,375	1,23,253
Equity				
Equity Share Capital	964	964	964	964
Other Equity	18,500	23,627	29,907	43,451
Total Network	19,464	24,592	30,871	44,415
Non-Current Liabilities				
Long Term borrowings	275	267	267	267
Provisions	32,853	32,052	34,037	36,260
Other non current liabilities	2,103	2,080	2,105	2,113
Current Liabilities				
ST Debt / Current of LT Debt	66	34	34	34
Trade payables	17,482	19,338	23,241	25,809
Other current liabilities	10,100	11,426	12,820	14,354
Total Equity & Liabilities	82,341	89,787	1,03,375	1,23,253

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Dec	CY21	CY22	CY23E	CY24E
PBT	30,700	33,017	40,610	45,808
Add. Depreciation	3,910	4,030	4,468	5,216
Add. Interest	2,017	1,546	1,958	2,158
Less Financial Other Income	1,202	1,010	1,292	685
Add. Other	(17,840)	(2,339)	(2,292)	(1,695)
Op. profit before WC changes	18,787	36,253	44,744	51,487
Net Changes-WC	16,974	(3,743)	8,753	1,093
Direct tax	(7,389)	(8,655)	(10,559)	(11,910)
Net cash from Op. activities	28,372	23,855	42,938	40,669
Capital expenditures	(8,139)	(5,642)	(21,376)	(24,394)
Interest / Dividend Income	1,958	2,084	2,268	1,804
Others	301	1,505	-	-
Net Cash from Invt. activities	(5,880)	(2,052)	(19,108)	(22,590)
Issue of share cap. / premium	(1,127)	384	(100)	-
Debt changes	(8)	(40)	-	-
Dividend paid	(19,283)	(20,247)	(22,658)	(19,283)
Interest paid	(2,017)	(1,546)	(1,958)	(2,158)
Others	-	-	-	-
Net cash from Fin. activities	(22,435)	(21,449)	(24,716)	(21,441)
Net change in cash	58	354	(885)	(3,362)
Free Cash Flow	20,233	18,214	21,563	16,275

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY21	CY22	CY23E	CY24E
Per Share(Rs)				
EPS	241.8	252.7	311.7	351.6
CEPS	282.3	294.5	358.0	405.7
BVPS	201.9	255.1	320.2	460.7
FCF	209.9	188.9	223.6	168.8
DPS	200.0	210.0	235.0	200.0
Return Ratio(%)				
RoCE	156.2	150.1	147.2	124.6
ROIC	42.4	42.9	41.5	38.7
RoE	117.6	110.6	108.4	90.1
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.1)	0.0
Net Working Capital (Days)	0	4	2	1
Valuation(x)				
PER	85.5	81.8	66.3	58.8
P/B	102.4	81.0	64.6	44.9
P/CEPS	282.3	294.5	358.0	405.7
EV/EBITDA	56.0	52.7	43.5	37.9
EV/Sales	13.5	11.7	10.0	8.9
Dividend Yield (%)	1.0	1.0	1.1	1.0

Source: Company Data, PL Research

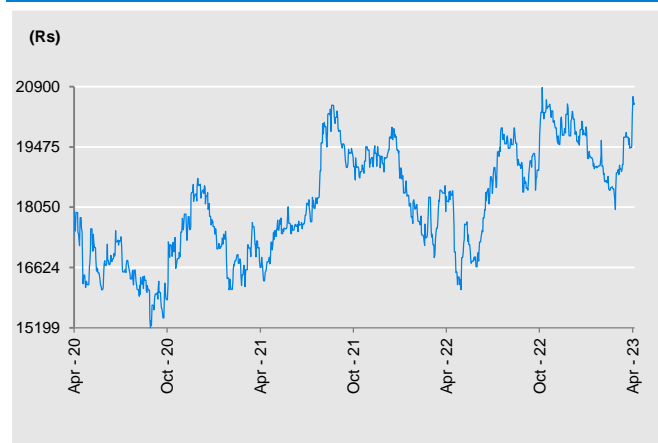
Quarterly Financials (Rs m)

Y/e Dec	Q2CY22	Q3CY22	Q4CY22	Q1CY23
Net Revenue	40,366	46,018	42,568	48,305
YoY gr. (%)	16.1	18.5	13.6	21.0
Raw Material Expenses	18,583	21,777	19,215	22,315
Gross Profit	21,782	24,241	23,353	25,990
Margin (%)	54.0	52.7	54.9	53.8
EBITDA	8,492	10,101	9,769	11,100
YoY gr. (%)	1.8	6.1	15.7	19.7
Margin (%)	21.0	21.9	22.9	23.0
Depreciation / Depletion	1,016	982	987	1,017
EBIT	7,476	9,119	8,782	10,083
Margin (%)	18.5	19.8	20.6	20.9
Net Interest	370	372	448	370
Other Income	194	306	296	337
Profit before Tax	7,300	9,053	8,630	10,049
Margin (%)	18.1	19.7	20.3	20.8
Total Tax	1,850	2,379	2,310	2,538
Effective tax rate (%)	25.3	26.3	26.8	25.3
Profit after Tax	5,450	6,674	6,319	7,511
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,450	6,674	6,319	7,511
YoY gr. (%)	3.9	7.4	5.0	25.8
Margin (%)	13.5	14.5	14.8	15.5
Extra Ord. Income / (Exp)	(297)	(60)	(39)	(145)
Reported PAT	5,153	6,615	6,281	7,366
YoY gr. (%)	(4.3)	7.1	65.5	24.7
Margin (%)	12.8	14.4	14.8	15.2
Other Comprehensive Income	13	31	1,075	(512)
Total Comprehensive Income	5,167	6,645	7,355	6,854
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	56.5	69.2	65.5	77.9

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	Accumulate	22,070	19,530
2	16-Feb-23	Accumulate	21,021	19,629
3	06-Jan-23	Accumulate	20,201	19,890
4	19-Oct-22	Accumulate	20,111	19,388
5	04-Oct-22	Accumulate	20,178	18,966
6	28-Jul-22	Accumulate	19,721	19,112
7	07-Jul-22	Accumulate	19,426	18,205

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,150	2,776
2	Avenue Supermarts	BUY	4,561	3,451
3	Britannia Industries	Hold	4,580	4,258
4	Colgate Palmolive	Hold	1,565	1,537
5	Dabur India	Accumulate	589	523
6	Emami	Accumulate	485	359
7	Hindustan Unilever	Accumulate	2,800	2,532
8	ITC	Accumulate	444	389
9	Jubilant FoodWorks	BUY	500	426
10	Kansai Nerolac Paints	Accumulate	485	386
11	Marico	Hold	523	481
12	Mold-tek Packaging	Hold	990	959
13	Nestle India	Accumulate	22,070	19,530
14	Pidilite Industries	Hold	2,500	2,359
15	Restaurant Brands Asia	Accumulate	121	94
16	Titan Company	BUY	2,956	2,578
17	Westlife Foodworld	BUY	806	728

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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