

Consumer Staples | Q1CY23 Result Update

Strong growth across verticals; Maintain BUY

- Nestlé's Q1CY23 results exceed our estimates. The company reported 21.2% YoY growth in the domestic market driven by healthy volume and mix led growth while exports business posted 24.9% YoY increase. The company posted highest revenue growth in past 10-years (excl growth in Q3CY16).
- On a 3-Yr CAGR basis, revenues increased by 13.3% - indicates acceleration in overall growth. E-com channel continues to maintain strong growth fueled by new formats - 'quick commerce' and 'click & mortar'. Growth in organized channels was supported by outlet expansion.
- GM decline by 160bps YoY mainly attributed to higher inflation in cost of fresh milk, fuels and green coffee. However, edible oils, wheat and packaging material costs have witnessed early signs of softening.
- Nestlé's Q1CY23 results were ahead of our estimates. Hence we have increased our CY23/24E EPS estimates to factor in increased demand for the company's products. As the company has leadership position and unique positioning in most of the categories, we believe that its growth rate would remain high. Further, Nestlé's margins would improve gradually with softening in most of the commodity prices but high inflation in milk prices remains a concern. We value the stock at 67x CY24E EPS, and arrived at TP of Rs 24,501. Maintain BUY.

Revenue EBITDA and APAT was head of estimate

Net Sales stood at Rs 48.3bn, up 21.3% YoY in Q1CY23 (base of 10.2% growth) - came 6.4% above of our estimate. The company has posted highest growth in a quarter in last 10 years (excluding exceptional growth in Q3CY16). On 3 yr CAGR basis, revenue increased 13.3%. Our analysis suggests, volume growth during the quarter stood at 5%. Excluding low cost SKU's of Maggie, the volume growth was at 11-12%. Out of home categories performance continued to accelerate in Q1. Domestic business reported 21.6% growth driven by healthy volume and price growth. EBITDA increased 18.5% YoY basis to Rs 11bn – came +3.9% above our estimate. EBITDA margin contracted by 60bps to 22.7% as 160bps increase in RM cost was partially offset by 60/50bps decrease in employee costs/other expense. APAT grew by 23.9% YoY to Rs 7.4bn – was 5.4% above our estimate.

Q1CY23 Result (Rs Mn)

Particulars	Q1CY23	Q1CY22	YoY (%)	Q4CY22	QoQ (%)
Revenue	48,305	39,807	21.3	42,568	13.5
Total Expense	37,351	30,561	22.2	32,838	13.7
EBITDA	10,955	9,247	18.5	9,730	12.6
Depreciation	1,017	1,043	(2.5)	987	3.1
EBIT	9,938	8,204	21.1	8,744	13.7
Other Income	337	214	57.1	296	14.0
Interest	370	356	4.0	448	(17.4)
EBT	9,905	8,062	22.8	8,591	15.3
Tax	2,538	2,115	20.0	2,310	9.9
RPAT	7,366	5,947	23.9	6,281	17.3
APAT	7,366	5,947	23.9	6,281	17.3
			(bps)		(bps)
Gross Margin (%)	53.8	55.4	(159)	54.9	(106)
EBITDA Margin (%)	22.7	23.2	(55)	22.9	(18)
NPM (%)	15.2	14.9	31	14.8	50
Tax Rate (%)	25.6	26.2	(61)	26.9	(126)
EBIT Margin (%)	20.6	20.6	(4)	20.5	3

CMP	Rs 20,689
Target / Upside	Rs 24,501 / 18%
NIFTY	17,360

Scrip Details

Equity / FV	Rs 964mn / Rs 10		
Market Cap	Rs 1,995bn		
	USD 24.4bn		
52-week High/Low	Rs 21,049/ 16,000		
Avg. Volume (no)	63,180		
Bloom Code	NEST IN		
Price Performance	1M	3M	12M
Absolute (%)	9	8	14
Rel to NIFTY (%)	7	11	11

Shareholding Pattern

	Sep'22	Dec'22	Mar'23
Promoters	62.8	62.8	62.8
MF/Banks/FIs	9.1	9.1	9.2
FIs	11.7	12.1	12.1
Public / Others	16.5	16.1	16.0

Valuation (x)

	CY22A	CY23E	CY24E
P/E	83.4	66.2	56.6
EV/EBITDA	53.4	44.3	38.1
ROE (%)	108.5	108.2	97.4
RoACE (%)	115.2	114.1	102.4

Estimates (Rs bn)

	CY22A	CY23E	CY24E
Revenue	169.0	194.6	218.3
EBITDA	37.1	44.8	52.2
PAT	23.9	30.1	35.3
EPS (Rs.)	247.9	312.5	365.6

VP - Research: Sachin Bobade

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

Associate: Jyoti Amonkar

Tel: +9122 40969622

E-mail: jyotia@dolatcapital.com

Associate: Harsh Rathore

Tel: +9122 40969753

E-mail: harshr@dolatcapital.com

Healthy growth continues in core categories

The domestic business posted 21.6% expansion largely led by volume and mix growth. Beverages continued to report robust growth. During the quarter, NESCAFÉ has achieved highest ever market share gain. Further, though milk products faced challenges due to unprecedented milk prices - milk products and nutrition category witnessed a strong double-digit growth. Nestle launched new product 'ThickenUp Clear' under the milk products and nutrition segment. Strong growth in Foods was supported by market presence, media campaigns and focused consumer activation. The confectionery category posted robust growth driven by KITKAT and MUNCH. In the pet food segment, Nestle launched new product under cat portfolio.

Exhibit 1: Actual V/s DART Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	48,305	45,380	6.4	Volume growth was better than expected
EBITDA	10,955	10,541	3.9	Higher revenue resulted in better than expected EBITDA
EBITDA margin %	22.7	23.2	(60 bps)	
APAT	7,366	6,987	5.4	Cascading effect of higher EBITDA

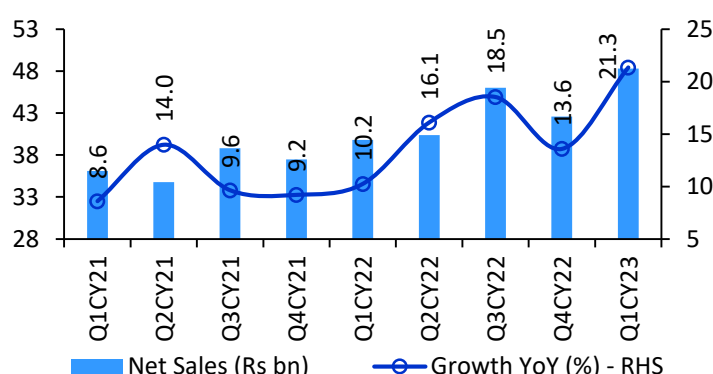
Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	CY23E			CY24E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	194,584	189,476	2.7	218,290	211,624	3.2
EBITDA	44,850	44,232	1.4	52,199	51,080	2.2
EBITDA margin (%)	23.0	23.3	(30 bps)	23.9	24.1	(20 bps)
PAT	30,134	29,671	1.6	35,252	34,450	2.3
EPS (Rs)	312.6	307.8	1.6	365.7	357.4	2.3

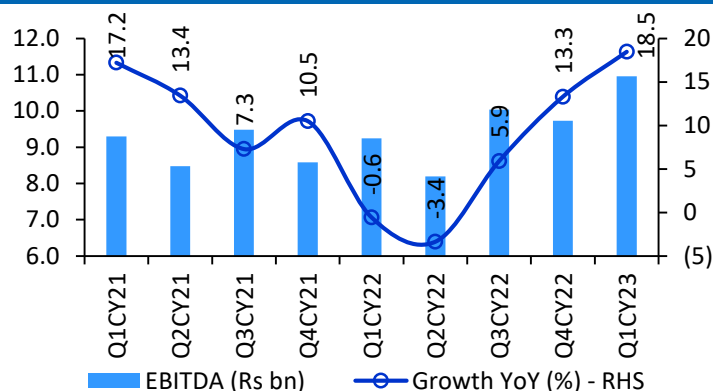
Source: DART, Company

Exhibit 3: Net Sales and Growth Trend

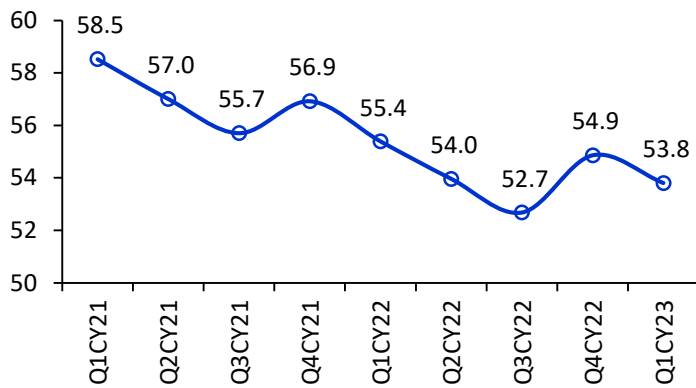


Source: DART, Company

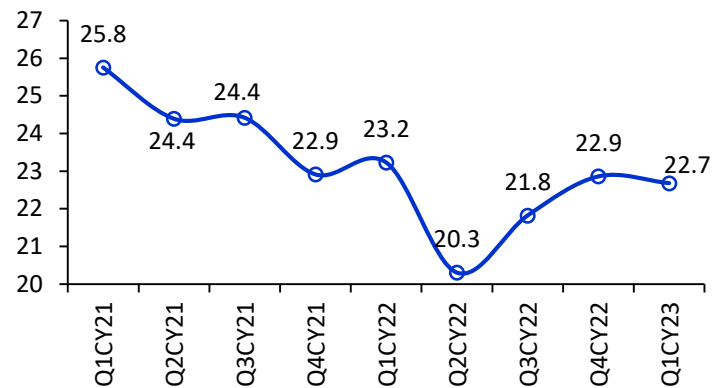
Exhibit 4: EBITDA and EBITDA Growth Trend



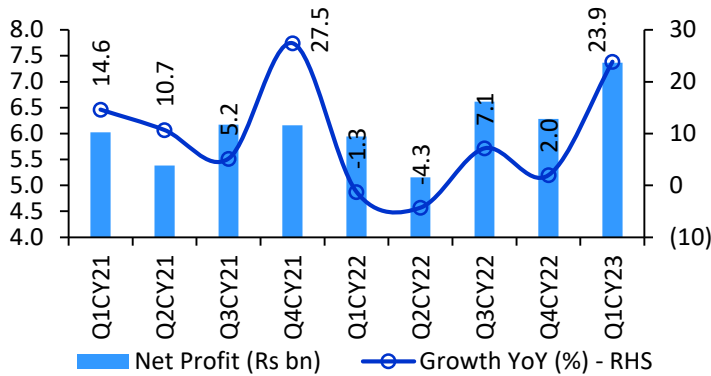
Source: DART, Company

Exhibit 5: Gross margin (%)


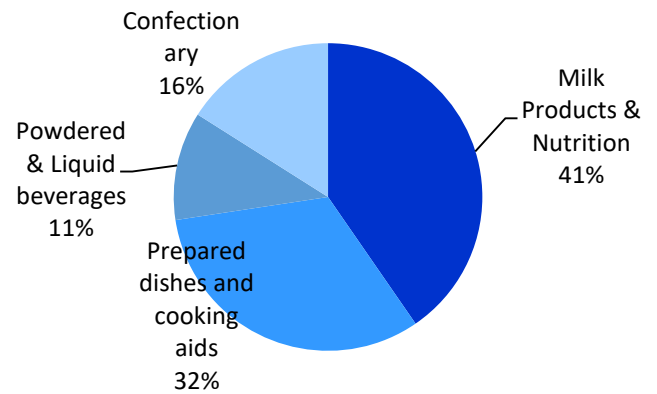
Source: DART, Company

Exhibit 6: EBITDA margin (%)


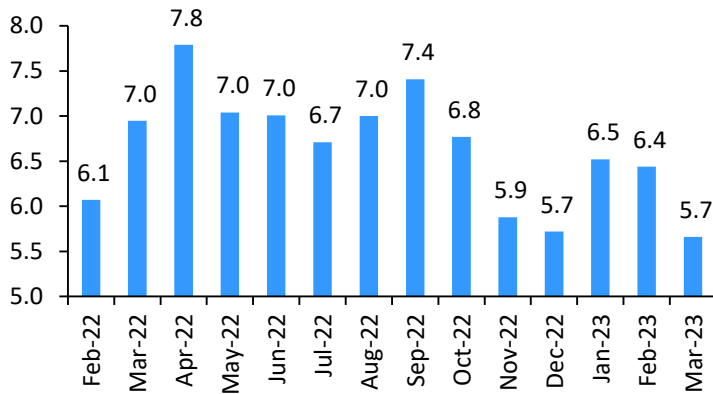
Source: DART, Company

Exhibit 7: Net Profit and Growth Trend


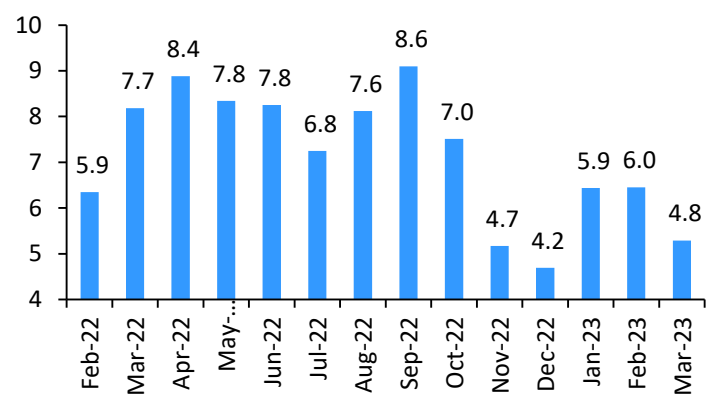
Source: DART, Company

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	CY22A	CY23E	CY24E
Revenue	147,406	168,970	194,584	218,290
Total Expense	111,742	131,844	149,734	166,091
COGS	63,482	77,499	89,898	99,787
Employees Cost	15,299	16,355	17,663	19,076
Other expenses	32,961	37,991	42,173	47,227
EBIDTA	35,664	37,126	44,850	52,199
Depreciation	3,910	4,030	3,863	4,347
EBIT	31,754	33,095	40,987	47,853
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	40,448	47,318
Tax	7,389	8,655	10,314	12,066
RPAT	21,184	23,905	30,134	35,252
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	23,549	23,905	30,134	35,252

Balance Sheet

(Rs Mn)	CY21A	CY22A	CY23E	CY24E
Sources of Funds				
Equity Capital	964	964	964	964
Minority Interest	0	0	0	0
Reserves & Surplus	18,500	23,627	30,143	40,332
Net Worth	19,464	24,592	31,108	41,296
Total Debt	341	300	300	300
Net Deferred Tax Liability	(258)	(256)	(256)	(256)
Total Capital Employed	19,546	24,636	31,152	41,340

Applications of Funds

Net Block	29,947	30,437	39,574	52,228
CWIP	2,462	3,584	6,584	9,584
Investments	7,107	5,602	5,602	5,602
Current Assets, Loans & Advances	28,114	35,460	33,898	35,391
Inventories	15,927	19,288	22,218	24,928
Receivables	1,660	1,919	2,189	2,456
Cash and Bank Balances	7,354	9,456	4,693	3,210
Loans and Advances	610	676	676	676
Other Current Assets	1,930	1,948	1,948	1,948
Less: Current Liabilities & Provisions	48,084	50,446	54,506	61,464
Payables	17,482	19,338	18,545	20,807
Other Current Liabilities	30,602	31,108	35,960	40,657
<i>sub total</i>				
Net Current Assets	(19,970)	(14,987)	(20,608)	(26,073)
Total Assets	19,546	24,636	31,152	41,340

E – Estimates

Important Ratios

Particulars	CY21A	CY22A	CY23E	CY24E
(A) Margins (%)				
Gross Profit Margin	56.9	54.1	53.8	54.3
EBIDTA Margin	24.2	22.0	23.0	23.9
EBIT Margin	21.5	19.6	21.1	21.9
Tax rate	25.9	26.6	25.5	25.5
Net Profit Margin	14.4	14.1	15.5	16.1
(B) As Percentage of Net Sales (%)				
COGS	43.1	45.9	46.2	45.7
Employee	10.4	9.7	9.1	8.7
Other	22.4	22.5	21.7	21.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	15.7	21.4	24.1	25.6
Inventory days	39	42	42	42
Debtors days	4	4	4	4
Average Cost of Debt	585.6	482.4	566.2	622.8
Payable days	43	42	35	35
Working Capital days	(49)	(32)	(39)	(44)
FA T/O	4.9	5.6	4.9	4.2
(D) Measures of Investment				
AEPS (Rs)	244.2	247.9	312.5	365.6
CEPS (Rs)	284.8	289.7	352.6	410.7
DPS (Rs)	368.8	196.0	200.0	210.0
Dividend Payout (%)	151.0	79.1	64.0	57.4
BVPS (Rs)	201.9	255.0	322.6	428.3
RoANW (%)	106.8	108.5	108.2	97.4
RoACE (%)	128.2	115.2	114.1	102.4
RoAIC (%)	428.1	241.8	196.9	148.2
(E) Valuation Ratios				
CMP (Rs)	20689	20689	20689	20689
P/E	84.7	83.4	66.2	56.6
Mcap (Rs Mn)	1,994,862	1,994,862	1,994,862	1,994,862
MCap/ Sales	13.5	11.8	10.3	9.1
EV	1,987,216	1,983,534	1,988,296	1,989,779
EV/Sales	13.5	11.7	10.2	9.1
EV/EBITDA	55.7	53.4	44.3	38.1
P/BV	102.5	81.1	64.1	48.3
Dividend Yield (%)	1.8	0.9	1.0	1.0
(F) Growth Rate (%)				
Revenue	10.4	14.6	15.2	12.2
EBITDA	11.4	4.1	20.8	16.4
EBIT	12.2	4.2	23.8	16.8
PBT	1.6	14.0	24.2	17.0
APAT	13.1	1.5	26.1	17.0
EPS	13.1	1.5	26.1	17.0

E – Estimates

Cash Flow

Particulars	CY21A	CY22A	CY23E	CY24E
Profit before tax	28,838	32,560	40,448	47,318
Depreciation & w.o.	3,902	4,030	3,863	4,347
Net Interest Exp	0	0	0	0
Direct taxes paid	(7,286)	(8,412)	(10,314)	(12,066)
Change in Working Capital	(1,718)	(302)	(4,010)	(521)
Non Cash	(1,376)	(502)	4,869	4,503
(A) CF from Operating Activities	22,360	27,374	34,856	43,581
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(7,308)	(5,407)	(16,000)	(20,000)
Free Cash Flow	15,052	21,967	18,856	23,581
(Inc.)/ Dec. in Investments	(13,419)	(816)	0	0
Other	0	0	0	0
(B) CF from Investing Activities	(20,728)	(6,223)	(16,000)	(20,000)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	0	0	0	0
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	(19,283)	(20,247)	(23,618)	(25,064)
Other	7,306	1,197	0	0
(C) CF from Financing	(11,977)	(19,050)	(23,618)	(25,064)
Net Change in Cash	(10,345)	2,101	(4,762)	(1,483)
Opening Cash balances	17,699	7,354	9,456	4,693
Closing Cash balances	7,354	9,456	4,693	3,210

E – Estimates

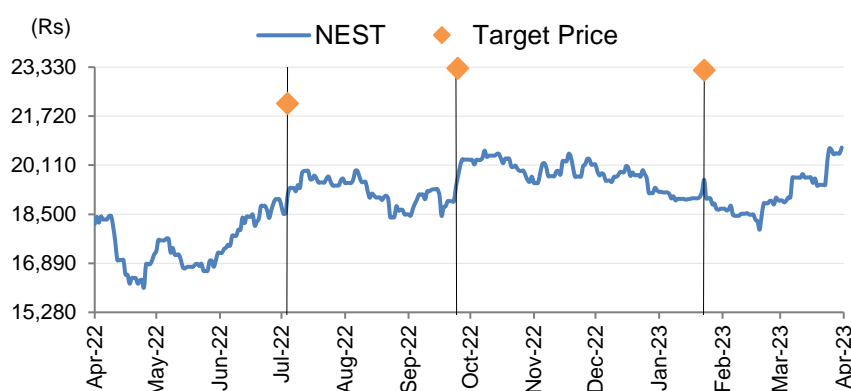
Notes

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.)
Jul-22	Accumulate	22,130	19,112
Oct-22	BUY	23,286	19,739
Feb-23	BUY	23,228	19,629

**Price as on recommendation date*

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
-------------	-------------------	-------------------------	-----------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
-------------------	------------------	-----------------------	-----------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: "This Report is considered independent third-party research and was prepared by Dolat Capital Market Private Limited, with headquarters in India. The distribution of this Research is provided pursuant to the exemption under Rule 15a-6(a) (2) and is only intended for an audience of Major U.S. Institutional Investors (MUSIIs) as defined by Rule 15a-6(b)(4). This research is not a product of StoneX Financial Inc. Dolat Capital Market Private Limited has sole control over the contents of this research report. StoneX Financial Inc. does not exercise any control over the contents of, or the views expressed in, any research reports prepared by Dolat Capital Market Private Limited and under Rule 15a-6(a) (3), any U.S. recipient of this research report wishing to affect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through StoneX Financial Inc. Please contact Gene Turok at +1 (212) 379-5463 or email gene.turok@stonex.com. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through the Dolat Capital Market Private Limited."



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
