

Nestle India (NEST)

FMCG | 3QCY23 Result Update

ACCUMULATE

CMP: Rs24,132 | Target Price (TP): Rs23,700 | Downside: 2%

October 19, 2023

EBITDA margin surprises; sales outlook healthy

Key Points

- While 3QCY23 reported sales came in-line with expectations, the highest gross margin in the last seven quarters and the highest EBITDA margin in the last eight quarters led to mid single-digit beat in EBITDA and PBT. While the management has expressed caution on material costs, led by uneven rains and rain deficit, outlook on topline remains good in our view
- There is no material change in our EPS estimates for CY23E, CY24E and CY25E
- We remain constructive about the Packaged Food growth opportunity in India and Nestle (along with Britannia) has been at the forefront in driving growth for the past decade. ROCEs are also best-of-breed. Nevertheless, expensive valuation of ~59x led us to maintain ACCUMULATE rating on the stock

3QCY23 performance update: Nestle India's (NEST) 3QCY23 revenue grew by 9.5% YoY to Rs50.4bn (in-line with our estimate of Rs50.8bn). This was the first time in the company's history that the revenue crossed Rs50bn in any quarter. Gross margin at 56.5% (up 380bps YoY and 170bps QoQ) was above our expectation of 55%. Higher gross margin, partially offset by higher employee expenses (up 110bps YoY) and higher other expenses (up 20bps YoY) meant that EBITDA margin was up by 240bps YoY to 24.4% (vs our est. 23%). Domestic business grew by 10.3% YoY to Rs48.2bn while exports (~3.7% of sales in 3QCY23) declined by 9.6% YoY to Rs1.9bn. The double-digit growth in domestic sales was led by mix, volume and price.

Outlook on commodity prices: (1) Production of commodities such as maize, sugar, oilseeds and spices is likely to be affected by uneven distribution of rains (2) Coffee prices continue to be volatile due to global supply deficit (3) Milk prices are expected to remain stable as milk flush expectation remains healthy (4) Wheat production might get impacted by upcoming winter.

3QCY23 segmental update: (1) Continued growth momentum in Prepared Dishes and Cooking Aids, driven by market visibility, impactful media campaigns and innovations in the MAGGI portfolio for RURBAN markets (2) The quarter witnessed double-digit growth in Milk Products & Nutrition segment. NEST also launched Nestlé a+ Masala Millet (3) Strong growth was seen in the Confectionery segment, led by KITKAT and supported by MUNCH. Performance was aided by a mega launch plan in KITKAT's premium portfolio (4) Robust growth was achieved in Beverages on the back of double-digit growth in key brands, highest-ever market share in NESCAFÉ and strong gains in household penetration.

Est Change	No Change
TP Change	Upward
Rating Change	Maintain

Company Data and Valuation Summary

Reuters:	NEST.BO
Bloomberg:	NEST IN Equity
Mkt Cap (Rsbn/US\$bn):	2,242.9 / 26.9
52 Wk H / L (Rs):	23,600 / 17,880
ADTV-3M (mn) (Rs/US\$):	1,390.7 / 16.8
Stock performance (%) 1M/6M/1yr:	1.9 / 12.6 / 20.0
Nifty 50 performance (%) 1M/6M/1yr:	(2.0) / (1.5) / 12.3

Shareholding	3QFY23	4QFY23	1QFY24
Promoters	62.8	62.8	62.8
DII's	9.1	9.2	9.1
FII's	12.1	12.1	12.4
Others	16.1	16.0	15.8
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	CY22	CY23E	CY24E	CY25E
Revenue	1,68,970	1,94,436	2,16,413	2,46,168
% Growth	14.6	15.1	11.3	13.7
Gross margin (%)	53.8	55.0	56.7	58.1
EBITDA	37,038	45,043	52,126	60,121
EBITDA margin (%)	21.9	23.2	24.1	24.4
% growth	4.6	21.6	15.7	15.3
Adjusted PAT	23,818	30,281	34,516	39,282
APAT margin (%)	14.1	15.6	15.9	16.0
% growth	4.7	27.1	14.0	13.8
EPS	247	314	358	407
% growth	4.7	27.1	14.0	13.8
RoE (%)	108.1	116.2	119.1	122.6
RoCE (%)	111.6	118.9	122.3	125.7
P/E (x)	97.7	76.8	67.4	59.2
EV/EBITDA (x)	62.4	51.0	44.1	38.3

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links:

[3QCY23 Result Update](#)

[CY22 Annual Report](#)

Please refer to the disclaimer towards the end of the document

Other highlights: (1) E-commerce channel accounted for ~6.1% of sales, driven by Quick Commerce (2) NEST declared an interim dividend of Rs140/share (in addition to the first interim dividend of Rs27/share) (3) The company has approved a stock split of each equity share into 10 equity shares (1:10).

View and valuation: There is no material change in our EPS forecasts for CY23E/CY24E/CY25E. Packaged Foods space in India offers among the strongest topline growth opportunities and NEST is a great play on this theme, especially with its ongoing efforts towards distribution expansion and regionalization of products. The management's confidence about growth prospects is reflecting in large capex plans during CY23-CY25. The company has been an outlier among staples peers over the past few years with strong double-digit sales momentum. While realization growth may dip relatively in CY24 as commodity costs stabilize, we believe that its outperformance vs peers on topline will continue. Challenging valuation of ~59x CY25E EPS results in limited upside on our TP of Rs23,700 (targeting 60x Sept 2025E EPS). Maintain ACCUMULATE.

Exhibit 1: 3QCY23 standalone performance

Particulars (Rsmn)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23E	CY22	CY23E	3Q23E	Var
Net Sales	39,926	40,457	46,018	42,568	48,305	46,585	50,368	49,177	1,68,970	1,94,436	50,850	-0.9%
YoY Change (%)	10.6	16.4	18.5	13.8	21.0	15.1	9.5	15.5	14.6	15.1	10.5	-
Gross Profit	22,076	21,801	24,241	23,353	25,990	25,535	28,452	27,056	90,927	1,07,033	27,956	-
Margin (%)	55.3	53.9	52.7	54.9	53.8	54.8	56.5	55.0	53.8	55.0	55.0	-
EBITDA	9,271	8,442	10,101	9,769	11,100	10,588	12,287	11,068	37,038	45,043	11,720	4.8%
Margins (%)	23.2	20.9	21.9	22.9	23.0	22.7	24.4	22.5	21.9	23.2	23.0	1.3
YoY Growth (%)	-0.3	1.2	6.1	14.8	19.7	25.4	21.6	13.3	4.6	21.6	16.0	-
Depreciation	1,045	1,017	982	987	1,017	1,074	1,112	1,268	4,030	4,471	1,149	-
Interest	356	370	372	448	370	328	314	407	1,546	1,419	405	-
Other income	214	194	306	296	337	240	333	404	1,010	1,313	383	-
PBT	8,085	7,249	9,053	8,630	10,049	9,427	11,195	9,796	32,473	40,467	10,549	-
Tax	2,115	1,850	2,379	2,310	2,538	2,410	2,870	2,367	8,655	10,185	2,658	-
Rate (%)	26.2	25.5	26.3	26.8	25.3	25.6	25.6	24.2	26.7	25.2	25.2	-
Adjusted PAT	5,969	5,399	6,674	6,319	7,511	7,017	8,324	7,429	23,818	30,281	7,891	5.5%
YoY Change (%)	-0.9	2.9	7.4	12.1	25.8	30.0	24.7	17.6	4.7	27.1	18.2	-
Adj. EPS	61.9	56.0	69.2	65.5	77.9	72.8	86.3	77.0	247.0	314.1	82	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Common-size P&L over the quarters

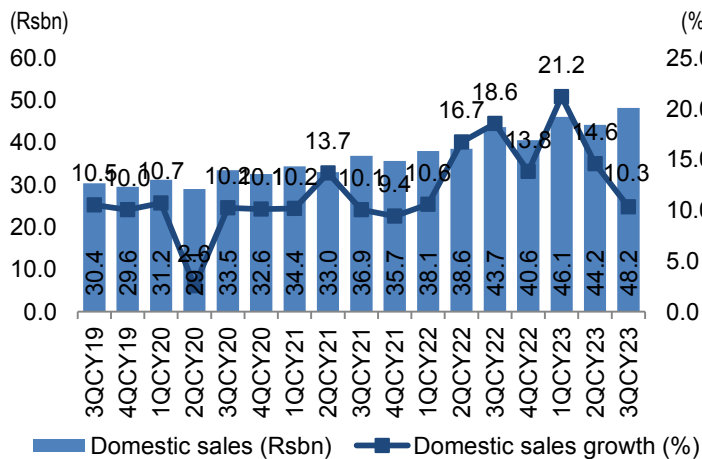
Particulars (%)	3QCY21	4QCY21	1QCY22	2QCY22	3QCY22	4QCY22	1QCY23	2QCY23	3QCY23
Gross margin	55.7	57.0	55.4	54.0	52.7	54.9	53.8	54.8	56.5
Staff Cost	10.0	10.3	10.0	10.1	9.1	9.6	9.4	9.8	10.3
Other expenses	21.2	23.9	22.0	22.8	21.6	22.4	21.4	22.3	21.8
EBITDA	24.5	22.8	23.4	21.0	21.9	22.9	23.0	22.7	24.4
EBIT	22.1	19.9	20.8	18.5	19.8	20.6	20.9	20.4	22.2
PBT	21.6	19.5	20.4	18.1	19.7	20.3	20.8	20.2	22.2
Adjusted PAT	16.0	15.1	15.1	13.5	14.5	14.8	15.5	15.1	16.5

Source: Company, Nirmal Bang Institutional Equities Research;

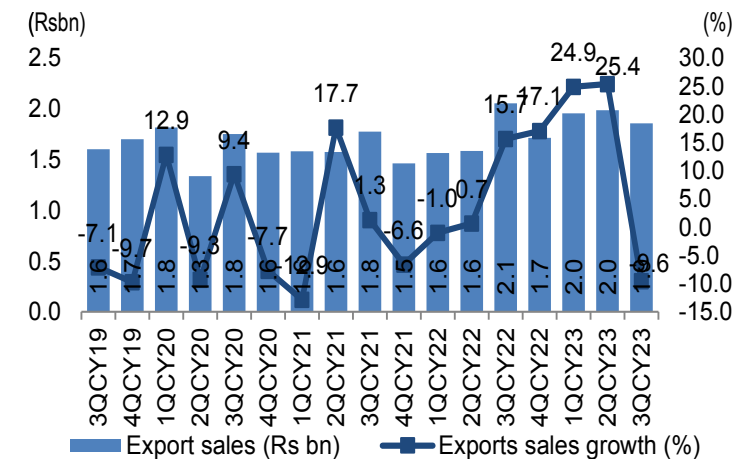
Exhibit 3: Change in our estimates

Y/E Dec. (Rsmn)	Earlier estimates			New estimates			Change (%)		
	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E
Net sales	1,94,436	2,16,413	2,43,291	1,94,436	2,16,413	2,46,168	0.0	0.0	1.2
EBITDA	44,698	52,126	58,996	45,043	52,126	60,121	0.8	0.0	1.9
EBITDA margin (%)	23.0	24.1	24.2	23.2	24.1	24.4	0.2	0.0	0.2
Adj. PAT	29,986	34,547	38,681	30,281	34,516	39,282	1.0	-0.1	1.6

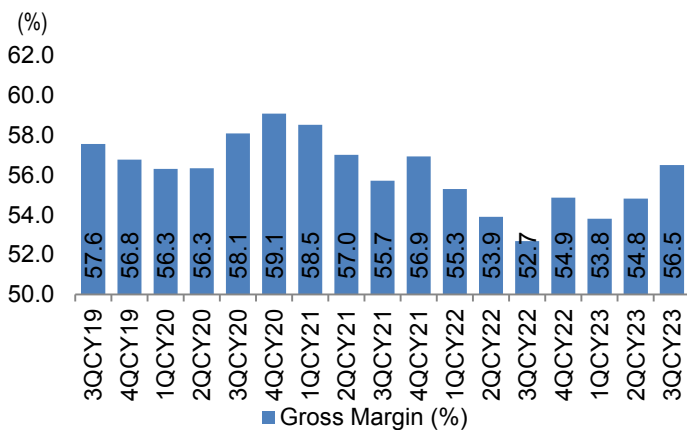
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Domestic sales grew 10.3% YoY to Rs48.2bn


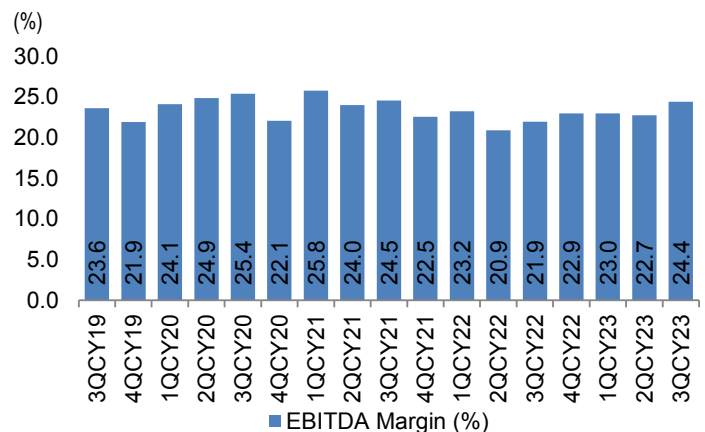
Source: Company, Nirmal Bang Institutional Equities Research



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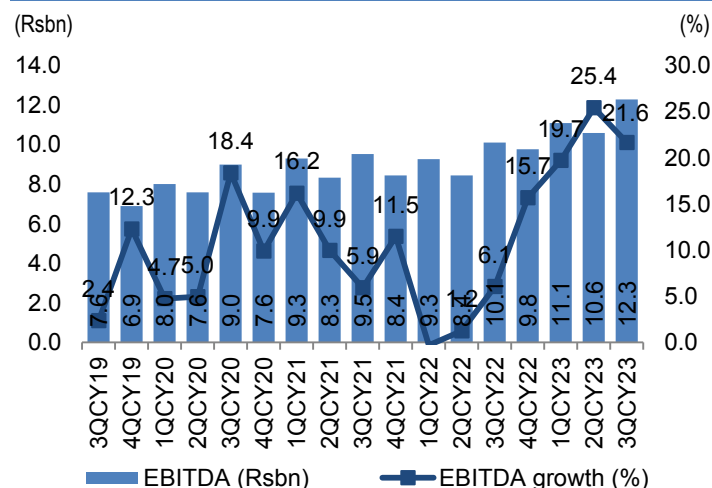
Exhibit 6: Gross margin increased ~380bps YoY to 56.5%


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: EBITDA margin increased ~240bps YoY to 24.4%


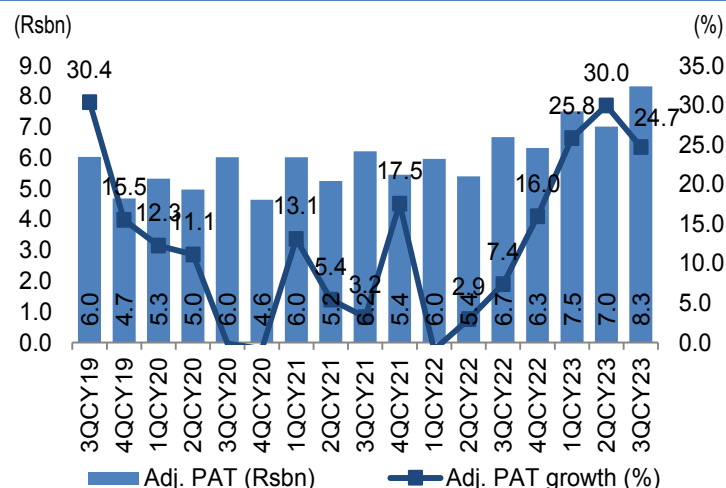
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: EBITDA grew by 21.6% YoY to Rs12.3bn



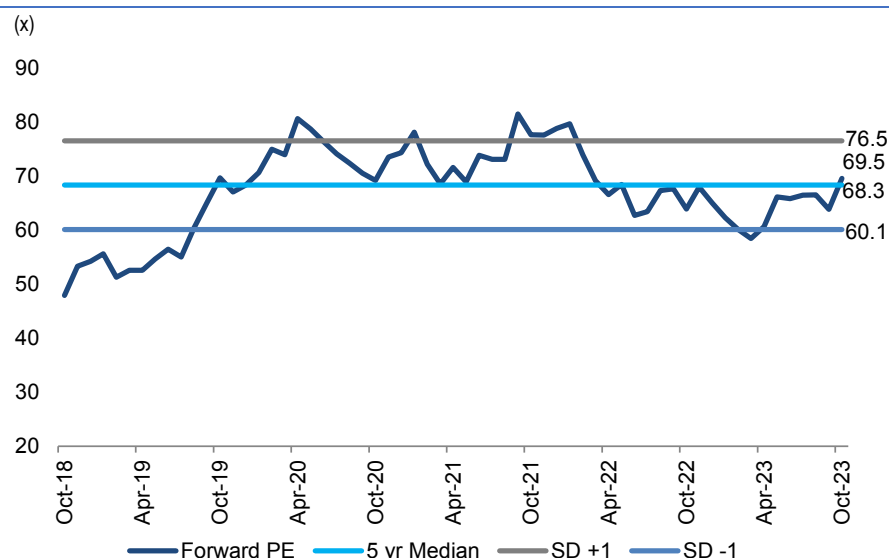
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: APAT grew by 24.7% YoY to Rs8.3bn



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: One-year forward P/E



Source: Company, Nirmal Bang Institutional Equities Research

Financials (Standalone)

Exhibit 11: Income statement

Y/E Dec (Rsmn)	CY21	CY22	CY23E	CY24E	CY25E
Net Sales	1,47,406	1,68,970	1,94,436	2,16,413	2,46,168
% Growth	10.4	14.6	15.1	11.3	13.7
COGS	63,482	78,043	87,402	93,679	1,03,028
Staff costs	15,299	16,355	19,337	21,967	25,116
Other expenses	33,199	37,534	42,653	48,641	57,903
Total expenses	1,11,980	1,31,931	1,49,392	1,64,287	1,86,047
EBITDA	35,426	37,038	45,043	52,126	60,121
% growth	10.2	4.6	21.6	15.7	15.3
EBITDA margin (%)	24.0	21.9	23.2	24.1	24.4
Other income	1,202	1,010	1,313	1,641	1,690
Interest costs	2,017	1,546	1,419	1,732	1,810
Depreciation	3,910	4,030	4,471	5,908	7,507
Profit before tax (before exceptional items)	30,700	32,473	40,467	46,126	52,495
Exceptional items	-1,560	-457	0	0	0
Tax	7,957	8,655	10,185	11,610	13,213
Rate of Tax (%)	25.9	26.7	25.2	25.2	25.2
PAT	21,184	23,360	30,281	34,516	39,282
Adj PAT	22,743	23,818	30,281	34,516	39,282
Adj PAT margin (%)	15.4	14.1	15.6	15.9	16.0
% growth	8.5	4.7	27.1	14.0	13.8

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Balance sheet

Y/E Dec (Rsmn)	CY21	CY22	CY23E	CY24E	CY25E
Share capital	964	964	964	964	964
Reserves	18,500	23,628	26,574	29,464	32,685
Net worth	19,464	24,592	27,538	30,428	33,649
Total debt	341	300	300	300	300
Deferred tax liability	-258	-256	-256	-256	-256
Total liabilities	19,546	24,636	27,582	30,473	33,693
Gross block	51,187	54,740	67,740	87,740	1,04,740
Depreciation	21,241	24,303	28,774	34,682	42,188
Net block	29,947	30,437	38,966	53,058	62,552
Capital work-in-progress	2,462	3,584	3,584	3,584	3,584
Investments	7,740	7,775	8,770	9,908	11,212
Inventories	15,927	19,288	22,014	23,761	26,363
Debtors	1,660	1,919	2,384	2,773	3,155
Cash	7,354	9,456	21,779	16,685	15,951
Loans, advances & other assets	17,004	17,073	17,244	17,416	17,591
Total current assets	41,944	47,735	63,421	60,636	63,060
Creditors	17,482	19,338	24,425	26,435	29,356
Other current liabilities & provisions	45,065	45,557	62,735	70,278	77,358
Total current liabilities	62,547	64,895	87,159	96,713	1,06,714
Net current assets	-20,603	-17,160	-23,738	-36,077	-43,654
Total assets	19,546	24,636	27,582	30,473	33,693

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash flow

Y/E Dec (Rsmn)	CY21	CY22	CY23E	CY24E	CY25E
PAT	21,287	24,148	30,387	34,607	39,402
Depreciation	3,910	4,030	4,471	5,908	7,507
Other income	-1,215	-683	-1,313	-1,641	-1,690
Interest paid	-3	181	1,419	1,732	1,810
(Inc.)/dec. in working capital	-1,523	-302	18,902	7,245	6,843
Cash flow from operations	22,456	27,374	53,866	47,851	53,871
Capital expenditure (-)	-7,308	-5,407	-13,000	-20,000	-17,000
Net cash after capex	15,148	21,967	40,866	27,851	36,871
Inc./(dec.) in investments & others	-5,307	1,361	212	412	267
Cash flow from investments	-12,615	-4,046	-12,788	-19,588	-16,733
Dividends paid (-)	-19,283	-20,247	-27,335	-31,626	-36,061
Others	-903	-979	-1,419	-1,732	-1,810
Cash from financial activities	-20,186	-21,226	-28,754	-33,358	-37,871
Opening cash balance	17,699	7,354	9,456	21,779	16,685
Closing cash balance	7,354	9,456	21,779	16,685	15,951
Change in cash balance	-10,345	2,102	12,324	-5,094	-734

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Key ratios

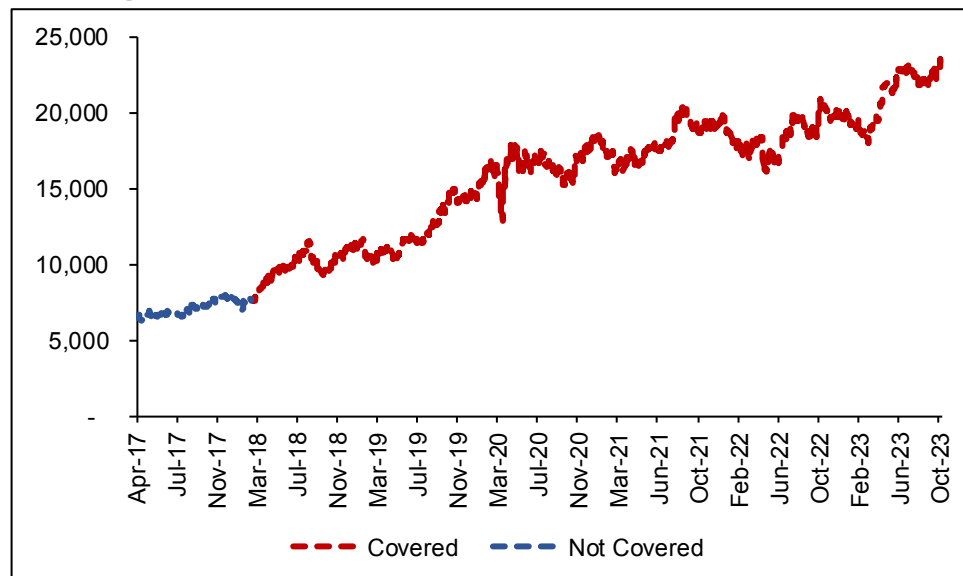
Y/E Dec	CY21	CY22	CY23E	CY24E	CY25E
Per share (Rs)					
EPS	236	247	314	358	407
Book value	202	255	286	316	349
DPS	200	220	284	328	374
Valuation (x)					
EV/sales	15.7	13.7	11.8	10.6	9.3
EV/EBITDA	65.3	62.4	51.0	44.1	38.3
P/E	102.3	97.7	76.8	67.4	59.2
P/BV	119.5	94.6	84.5	76.5	69.2
Return ratios (%)					
RoCE	120.1	111.6	118.9	122.3	125.7
RoE	114.7	108.1	116.2	119.1	122.6
Profitability ratios (%)					
Gross margin	56.9	53.8	55.0	56.7	58.1
EBITDA margin	24.0	21.9	23.2	24.1	24.4
EBIT margin	21.4	19.5	20.9	21.4	21.4
PAT margin	15.4	14.1	15.6	15.9	16.0
Liquidity ratios (%)					
Current ratio	0.7	0.7	0.7	0.6	0.6
Quick ratio	0.4	0.4	0.5	0.4	0.3
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity ratio	-0.4	-0.5	-0.9	-0.6	-0.6
Turnover ratios					
Total asset turnover ratio (x)	7.4	7.6	7.4	7.5	7.7
Fixed asset turnover ratio (x)	4.9	5.6	5.0	4.1	3.9
Inventory days	87	82	86	89	89
Debtors days	4	4	4	4	4
Creditor days	94	86	91	99	99

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 March 2018	Buy	7,619	9,400
11 May 2018	Buy	8,981	10,700
6 August 2018	Buy	10,325	11,900
29 October 2018	Buy	9,569	11,200
19 February 2019	Buy	10,350	12,500
9 April 2019	Buy	10,878	12,500
15 May 2019	Buy	10,470	12,100
5 August 2019	Accumulate	11,411	12,350
23 September 2019	Accumulate	13,502	14,650
9 October 2019	Accumulate	13,600	14,520
11 November 2019	Accumulate	14,471	14,600
14 February 2020	Accumulate	16,418	15,985
30 March 2020	Accumulate	15,036	16,365
13 May 2020	Accumulate	17,455	16,855
29 July 2020	Accumulate	17,099	17,205
22 September 2020	Accumulate	15,199	17,065
24 October 2020	Accumulate	15,865	16,900
8 January 2021	Accumulate	18,137	18,305
16 February 2021	Accumulate	17,217	17,530
27 February 2021	Accumulate	16,102	17,530
9 April 2021	Accumulate	17,690	17,530
20 April 2021	Accumulate	17,096	17,550
28 July 2021	Accumulate	18,023	17,550
23 September 2021	Accumulate	19,925	19,370
20 October 2021	Accumulate	19,368	19,155
31 October 2021	Accumulate	18,965	19,155
17 February 2022	Accumulate	18,126	19,615
21 February 2022	Accumulate	18,615	19,890
21 March 2022	Accumulate	18,284	19,725
21 April 2022	Accumulate	18,203	19,370
29 July 2022	Accumulate	19,112	19,605
14 September 2022	Accumulate	19,109	21,045
19 October 2022	Accumulate	19,739	21,160
17 February 2023	Accumulate	19,629	21,160
22 March 2023	Accumulate	18,858	21,555
25 April 2023	Accumulate	20,665	21,415
28 July 2023	Accumulate	22,325	22,785
19 October 2023	Accumulate	24,132	23,700

Rating chart



DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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