

## Consumer Staples | Q5FY24 Result Update

## Robust margin performance; Maintain Accumulate

- Nestlé's Q5FY24 revenue came in-line with 8.9% YoY growth in domestic market, driven by pricing and mix led growth while exports grew 19.0% YoY. Revenue increased by 12.2% (on a 4-yr CAGR basis).
- Despite inflationary commodity prices, GM expanded 300bps YoY to 56.8%. However, coffee, cocoa, cereals and grain prices saw high inflation. Milk prices are also expected to rise, due to harsh summers. The combined effect of these is expected to pressurize GM, in the near term.
- We are introducing FY25/26E EPS estimates at Rs 37.9/42.7 (compared to Rs 36.8/41.7 for CY24/25E) due to change in reporting year from calendar year to financial year. We believe Nestlé's growth rate and profitability will remain high, given its strong leadership and unique positioning in most categories. We continue to value the stock at 65x FY26E EPS and maintain 'Accumulate' rating with revise TP at Rs 2,773 considering rich valuations. BUY on dips.

## Revenue in line; EBITDA and APAT ahead of estimates

Net Sales stood at Rs 52.7bn (in-line), up 9% YoY in Q5FY24 (base of 21.3% growth). E-com (contribution 6.8% to domestic sales) continued its growth trajectory. OOH categories posted strong growth in Q5 led by focus on innovation, penetration in emerging channels, premiumization and geographical expansion. Despite inflationary commodity prices, GM expanded 300bps YoY. Decline of 300/20bps in RM cost/employee cost was partially offset by 20bps increase in other expenses. Consequently, EBITDA margin expanded 290bps YoY to 25.6%. EBITDA increased 23.1% YoY to Rs 13.5bn (above our estimate). RPAT grew 26.8% YoY to Rs 9.3bn. Excluding extraordinary items, APAT grew 25.4% YoY to Rs 9.2bn (above our estimate).

## Consistent performance continued across major brands

Beverages delivered strong double-digit growth across key brands - NESCAFÉ CLASSIC, NESCAFÉ Gold and NESCAFÉ Sunrise. NESCAFÉ registered highest ever yearly increase in household penetration and market share. Milk Products and Nutrition category posted strong double-digit growth. In the Pet care category, Nestle increased focus on accelerating e-com. In confectioneries, new launches, higher media costs and wider distribution network aided growth. Prepared Dishes & Cooking Aids segment growth was aided by media campaigns, innovations and wider consumer engagement. Nestle also launched Maggi oats noodles with millets magic, Korean noodles, Maggi teekha masala and Maggi chatpata masala variants.

## Q5FY24 Result (Rs Mn)

Particulars	Q5FY24*	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	52,676	48,305	9.0	46,004	14.5
Total Expense	39,188	37,351	4.9	35,053	11.8
EBITDA	13,488	10,955	23.1	10,951	23.2
Depreciation	1,089	1,017	7.1	1,087	0.2
EBIT	12,400	9,938	24.8	9,864	25.7
Other Income	268	337	(20.6)	303	(11.7)
Interest	262	370	(29.2)	230	14.2
EBT	12,506	9,905	26.3	8,865	41.1
Tax	3,164	2,538	24.7	2,309	37.1
RPAT	9,342	7,366	26.8	6,556	42.5
APAT	9,241	7,366	25.4	7,629	21.1
			(bps)		(bps)
Gross Margin (%)	56.8	53.8	299	58.6	(181)
EBITDA Margin (%)	25.6	22.7	293	23.8	180
NPM (%)	17.7	15.2	248	14.3	348
Tax Rate (%)	25.3	25.6	(33)	26.0	(74)
EBIT Margin (%)	23.5	20.6	297	21.4	210

\* Due to change in reporting year March-24 results are denoted as Q5FY24

CMP	Rs 2,563
Target / Upside	Rs 2,773 / 8%
NIFTY	22,402

## Scrip Details

Equity / FV	Rs 964mn / Rs 1
Market Cap	Rs 2,471bn
	USD 29.8bn
52-week High/Low	Rs 2,769/ 2,047
Avg. Volume (no)	9,90,400
Bloom Code	NEST IN

Price Performance	1M	3M	12M
Absolute (%)	0	3	24
Rel to NIFTY (%)	(2)	(2)	(5)

## Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	62.8	62.8	62.8
MF/Banks/FIs	9.3	9.2	9.1
FIs	12.1	12.1	12.1
Public / Others	15.8	16.0	16.1

## Valuation (x)

	FY24P*	FY25E	FY26E
P/E	62.9	67.6	60.1
EV/EBITDA	42.3	46.5	41.0
ROE (%)	135.6	93.4	77.7
RoACE (%)	139.3	96.4	80.4

## Estimates (Rs bn)

	FY24P*	FY25E	FY26E
Revenue	243.9	218.5	245.4
EBITDA	58.2	53.1	60.2
PAT	39.3	36.6	41.1
EPS (Rs.)	40.7	37.9	42.7

\*FY24 includes 15 months financials

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### Nespresso to launch in India by end of the year

During the quarter, Nestle has launched Nespresso in India. The coffee and machines of Nespresso are expected to be available in both original and professional systems and would cater to both domestic and professional consumers. Nestle would engage in the sales and distribution of Nespresso products (machines and capsules) through its distribution network, online channels and boutiques under commercial arrangements with Nespresso and third parties. Nespresso is set to launch by end of 2024.

### Nestle to form JV with Dr Reddy Laboratories

To offer cutting-edge nutraceutical brands to consumers in India and other agreed-upon territories, Nestle has approved for definitive agreement to form a JV with Dr. Reddy's Laboratories. The JV will bring together well-known global range of nutritional health solutions, vitamin, minerals, herbals and supplements of Nestlé Health Science with strong and established commercial strengths of Dr. Reddy's in India.

In the JV, Dr. Reddy would hold 51% of the stake and remaining would be held by Nestle. Furthermore, post six years the company has a call option to increase shareholding upto 60% at a fair market value and Dr Reddy would continue to hold atleast 40% of the shareholding after Nestle India exercises the call option.

Both companies have given the JV company license to utilize selected brands. In the nutritional and OTC segments, Dr. Reddy's will license brands like Rebalanz, Celevida, Antoxid, Kidrich-D3, and Becozinc, while Nestlé will license brands like Nature's Bounty, Osteo Bi-Flex, Ester-C, Resource High Protein, Optifast, Resource Diabetic, Peptamen, Resource Renal, and Resource Dialysis.

It is anticipated that the JV will commence operations in Q2FY25, based upon closing conditions.

### Exhibit 1: Actual V/s DART Estimates

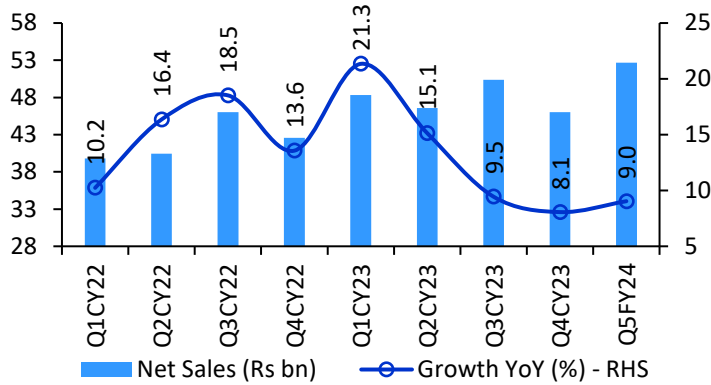
Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	52,676	52,653	0.0	
EBITDA	13,488	12,309	9.6	GM was better than estimate
EBITDA margin %	25.6	23.4	220bps	
APAT	9,241	8,435	9.5	Cascading effect of higher EBITDA

Source: Company, DART

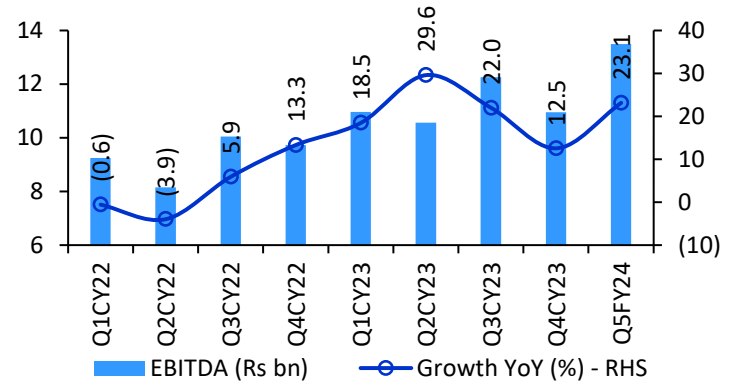
### Exhibit 2: Change in estimates

Particulars (Rs mn)						
	FY25E	CY24E	Chg (%)	FY26E	CY25E	Chg (%)
Revenue	2,18,487	2,14,530	1.8	2,45,401	2,41,202	1.7
EBIDTA	53,112	51,489	3.2	60,165	58,799	2.3
EBIDTA margin (%)	24.3	24.0	30bps	24.5	24.4	10bps
PAT	36,556	35,440	3.1	41,142	40,205	2.3
EPS (Rs)	37.9	36.8	3.1	42.7	41.7	2.3

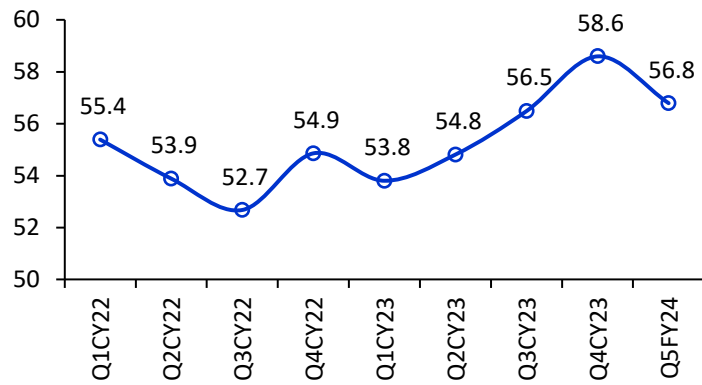
Source: DART, Company; The company has changed its reporting pattern from calendar year to financial year.

**Exhibit 3: Net Sales and Growth Trend**


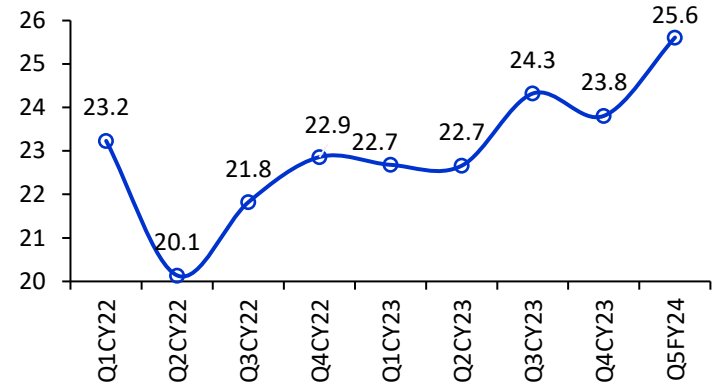
Source: DART, Company

**Exhibit 4: EBITDA and EBITDA Growth Trend**


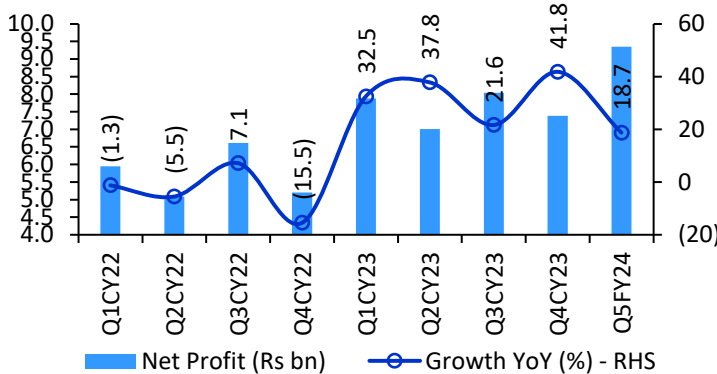
Source: DART, Company

**Exhibit 5: Gross margin (%)**


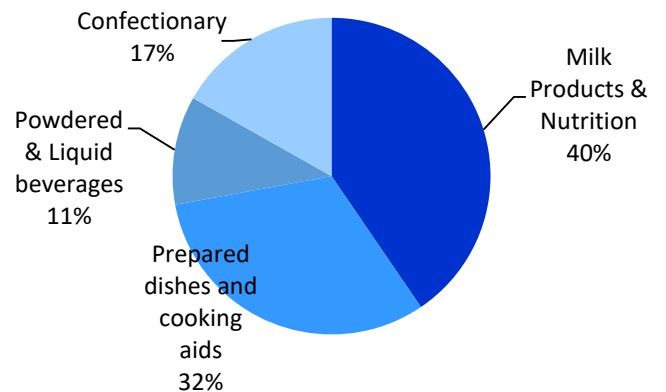
Source: DART, Company

**Exhibit 6: EBITDA margin (%)**


Source: DART, Company

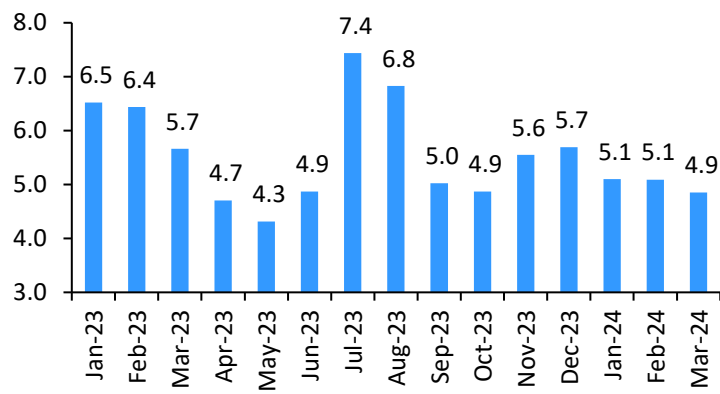
**Exhibit 7: Net Profit and Growth Trend**


Source: DART, Company

**Exhibit 8: Revenue Breakup (9MCY23)**


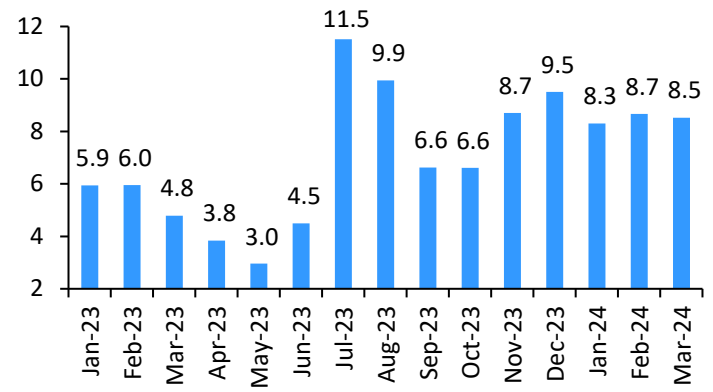
Source: DART, Company

**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)	CY22A	FY24P	FY25E	FY26E
<b>Revenue</b>	<b>1,68,970</b>	<b>2,43,939</b>	<b>2,18,487</b>	<b>2,45,401</b>
<b>Total Expense</b>	<b>1,31,844</b>	<b>1,85,741</b>	<b>1,65,375</b>	<b>1,85,236</b>
COGS	77,499	1,07,086	95,606	1,07,031
Employees Cost	16,355	23,361	20,184	22,404
Other expenses	37,991	55,294	49,585	55,802
<b>EBIDTA</b>	<b>37,126</b>	<b>58,198</b>	<b>53,112</b>	<b>60,165</b>
Depreciation	4,030	5,378	4,145	5,137
<b>EBIT</b>	<b>33,095</b>	<b>52,820</b>	<b>48,967</b>	<b>55,027</b>
Interest	1,546	1,455	1,600	1,760
Other Income	1,010	1,480	1,702	1,957
Exc. / E.O. items	0	44	0	0
<b>EBT</b>	<b>32,560</b>	<b>52,889</b>	<b>49,069</b>	<b>55,224</b>
Tax	8,655	13,560	12,513	14,082
RPAT	23,905	39,328	36,556	41,142
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>23,905</b>	<b>39,285</b>	<b>36,556</b>	<b>41,142</b>

### Balance Sheet

(Rs Mn)	CY22A	FY24P	FY25E	FY26E
<b>Sources of Funds</b>				
Equity Capital	964	964	964	964
Minority Interest	0	0	0	0
Reserves & Surplus	23,628	32,445	43,932	60,004
<b>Net Worth</b>	<b>24,592</b>	<b>33,409</b>	<b>44,896</b>	<b>60,968</b>
Total Debt	300	311	311	311
Net Deferred Tax Liability	(256)	120	120	120
<b>Total Capital Employed</b>	<b>24,636</b>	<b>33,841</b>	<b>45,328</b>	<b>61,400</b>

### Applications of Funds

Net Block	30,437	34,602	47,458	59,320
CWIP	3,584	17,417	20,417	23,417
Investments	5,602	4,239	4,239	4,239
<b>Current Assets, Loans &amp; Advances</b>	<b>35,460</b>	<b>35,593</b>	<b>25,791</b>	<b>33,024</b>
Inventories	19,288	20,894	18,702	21,013
Receivables	1,919	3,005	2,689	3,022
Cash and Bank Balances	9,456	7,789	494	5,083
Loans and Advances	676	755	755	755
Other Current Assets	1,948	2,751	2,751	2,751
<b>Less: Current Liabilities &amp; Provisions</b>	<b>50,446</b>	<b>58,010</b>	<b>52,577</b>	<b>58,600</b>
Payables	19,338	22,379	20,836	23,411
Other Current Liabilities	31,108	35,631	31,741	35,189
<i>sub total</i>				
Net Current Assets	(14,987)	(22,418)	(26,786)	(25,576)
<b>Total Assets</b>	<b>24,636</b>	<b>33,841</b>	<b>45,328</b>	<b>61,400</b>

E – Estimates, P - Provisional; \*FY24 includes 15 months financials

### Important Ratios

Particulars	CY22A	FY24P	FY25E	FY26E
<b>(A) Margins (%)</b>				
Gross Profit Margin	54.1	56.1	56.2	56.4
EBIDTA Margin	22.0	23.9	24.3	24.5
EBIT Margin	19.6	21.7	22.4	22.4
Tax rate	26.6	25.6	25.5	25.5
Net Profit Margin	14.1	16.1	16.7	16.8
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	45.9	43.9	43.8	43.6
Employee	9.7	9.6	9.2	9.1
Other	22.5	22.7	22.7	22.7
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	21.4	36.3	30.6	31.3
Inventory days	42	31	31	31
Debtors days	4	4	4	4
Average Cost of Debt	482.4	475.7	513.9	565.3
Payable days	42	33	35	35
Working Capital days	(32)	(34)	(45)	(38)
FA T/O	5.6	7.0	4.6	4.1
<b>(D) Measures of Investment</b>				
AEPS (Rs)	24.8	40.7	37.9	42.7
CEPS (Rs)	29.0	46.3	42.2	48.0
DPS (Rs)	19.6	20.0	21.0	31.2
Dividend Payout (%)	79.1	49.1	55.4	73.1
BVPS (Rs)	25.5	34.6	46.6	63.2
RoANW (%)	108.5	135.6	93.4	77.7
RoACE (%)	115.2	139.3	96.4	80.4
RoAIC (%)	241.8	256.2	138.2	108.8
<b>(E) Valuation Ratios</b>				
CMP (Rs)	2563	2563	2563	2563
P/E	103.4	62.9	67.6	60.1
Mcap (Rs Mn)	24,70,907	24,70,907	24,70,907	24,70,907
MCap/ Sales	14.6	10.1	11.3	10.1
EV	24,59,578	24,63,030	24,70,325	24,65,735
EV/Sales	14.6	10.1	11.3	10.0
EV/EBITDA	66.3	42.3	46.5	41.0
P/BV	100.5	74.0	55.0	40.5
Dividend Yield (%)	0.8	0.8	0.8	1.2
<b>(F) Growth Rate (%)</b>				
Revenue	14.6	44.4	(10.4)	12.3
EBITDA	4.1	56.8	(8.7)	13.3
EBIT	4.2	59.6	(7.3)	12.4
PBT	14.0	62.4	(7.2)	12.5
APAT	1.5	64.3	(6.9)	12.5
EPS	1.5	64.3	(6.9)	12.5

E – Estimates, P - Provisional; \*FY24 includes 15 months financials

## Cash Flow

Particulars	CY22A	FY24P	FY25E	FY26E
<b>Profit before tax</b>	<b>32,560</b>	<b>52,889</b>	<b>49,069</b>	<b>55,224</b>
Depreciation & w.o.	4,030	5,378	4,145	5,137
Net Interest Exp	0	0	0	0
Direct taxes paid	(8,412)	(13,560)	(12,513)	(14,082)
Change in Working Capital	(302)	(2,489)	134	152
Non Cash	(502)	(469)	(3,060)	3,227
<b>(A) CF from Operating Activities</b>	<b>27,374</b>	<b>41,748</b>	<b>37,775</b>	<b>49,658</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(5,407)	(18,783)	(20,000)	(20,000)
<b>Free Cash Flow</b>	<b>21,967</b>	<b>22,965</b>	<b>17,775</b>	<b>29,658</b>
(Inc.)/ Dec. in Investments	(816)	2,838	0	0
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(6,223)</b>	<b>(15,945)</b>	<b>(20,000)</b>	<b>(20,000)</b>
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)	(20,247)	(30,082)	(25,069)	(25,069)
Other	1,197	2,612	0	0
<b>(C) CF from Financing</b>	<b>(19,050)</b>	<b>(27,470)</b>	<b>(25,069)</b>	<b>(25,069)</b>
Net Change in Cash	2,101	(1,667)	(7,295)	4,589
<b>Opening Cash balances</b>	<b>7,354</b>	<b>9,456</b>	<b>7,789</b>	<b>494</b>
<b>Closing Cash balances</b>	<b>9,456</b>	<b>7,789</b>	<b>494</b>	<b>5,083</b>

E – Estimates, P - Provisional; \*FY24 includes 15 months financials

## Notes

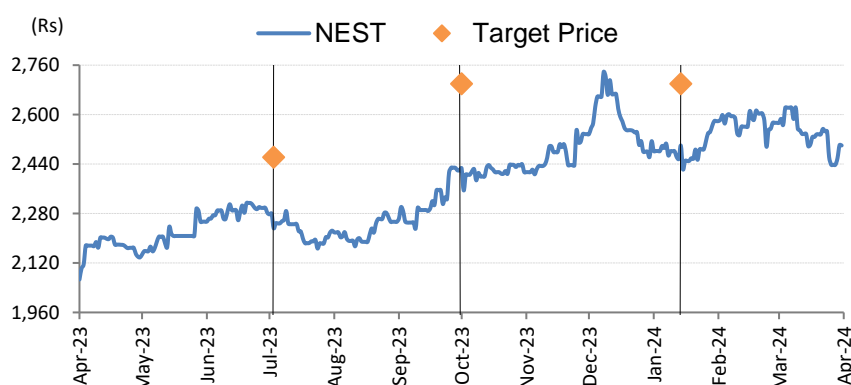


## DART RATING MATRIX

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-23	Accumulate	2,462	2,233
Oct-23	Accumulate	2,700	2,426
Feb-24	Accumulate	2,700	2,500

\*Price as on recommendation date

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