

India

**HOLD** (no change)

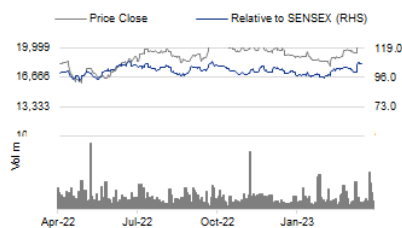
Consensus ratings\*: Buy 22 Hold 10 Sell 5

Current price:	Rs20,665
Target price:	Rs21,570
Previous target:	Rs20,200
Up/downside:	4.4%
InCred Research / Consensus:	1.2%
Reuters:	NEST.NS
Bloomberg:	NEST IN
Market cap:	US\$24,322m
	Rs1,992,450m
Average daily turnover:	US\$14.3m
	Rs1171.2m
Current shares o/s:	96.4m
Free float:	37.2%

\*Source: Bloomberg

**Key changes in this note**

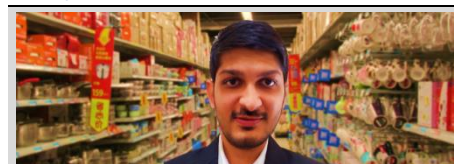
- Raise target price to Rs21,570.
- Introduce CY25F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.0	7.4	13.7
Relative (%)	4.3	7.6	8.5

Major shareholders	% held
Promoters	62.8
LIC	2.3
Axis AMC	1.5

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# Nestle India Ltd

## Strong sales growth offset by weak margins

- Nestle India's 1QCY23 revenue rose 21% yoy to Rs48.3bn. Domestic sales grew 21.2% yoy (15.8% on a 2-yr CAGR basis) while exports rose 24.9% yoy.
- Gross margin contracted 150bp yoy (down 110bp qoq) to 53.6% owing to input cost inflation. EBITDA margin contracted 30bp yoy to 21.9%.
- Sustained sales growth momentum remains a key catalyst. Lofty valuation limits the upside. Retain HOLD rating with a higher target price of Rs21,570.

**Robust sales growth**

Nestle India reported robust revenue growth of 21% yoy to Rs48.3bn for 1QCY23. Domestic sales grew 21.2% yoy (up 15.8% on a two-year CAGR). We estimate volume growth of 8% yoy/two-year CAGR. Exports showed a marked improvement with a reported growth of 24.9% yoy (11.2% on a two-year CAGR) led by portfolio expansion and its focus on entering new geographies. Rural sales grew at a faster pace led by volume while metro and mega cities sustained the strong growth momentum. Network expansion aided general trade (GT) growth while strong performance in quick commerce aided e-commerce growth. Out-of-home (OOH) business also recorded robust growth.

**Double-digit growth across categories**

Prepared dishes and cooking aids witnessed a discerning trend of premiumization while the growth was broad-based across portfolios. Double-digit growth in milk products was led by Milkmaid while the nutrition portfolio continues to lag. Focused trade activation led to sustained growth in the confectionery portfolio. Beverage portfolio registered market share gains-led growth. The pet food business continued to build on its momentum with the launch of new products under the cat food category.

**Pressure on margins likely to continue in the near term**

The gross margin declined by 150bp yoy (down 110bp qoq) to 53.6% owing to high input cost pressure, especially in fresh milk, fuels and green coffee, which is expected to remain elevated in the near term. However, softening edible oil, wheat, and packaging material prices provide some respite. EBITDA grew 19.5% yoy while the EBITDA margin contraction was limited to 30bp yoy at 21.9% because of lower employee cost (10.2% of sales, down 70bp yoy) and lower other expenses (21.7% of sales, down 44bp yoy).

**Maintain HOLD rating with a higher target price of Rs21,570**

Rising traction in rural areas and increased contribution from new product launches provide strong topline visibility over the medium- to long-term. We raise CY23F-24F revenue/PAT estimates by 2-3%, respectively. However, the valuation remains stretched at 68x/58x CY23F/24F EPS, respectively. We retain HOLD rating on Nestle India with a new target price of Rs21,570 (59x Mar 2025F EPS, five-year avg. P/E) from Rs20,200 earlier. Upside risk: Faster-than-expected margin recovery. Downside risk: Deceleration in sales growth.

Financial Summary	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue (Rsm)	147,406	168,970	193,322	217,442	241,941
Operating EBITDA (Rsm)	34,464	37,463	42,979	50,100	56,147
Net Profit (Rsm)	23,846	24,926	29,185	34,213	38,374
Core EPS (Rs)	247.3	258.5	302.7	354.8	398.0
Core EPS Growth	14.5%	4.5%	17.1%	17.2%	12.2%
FD Core P/E (x)	83.56	79.94	68.27	58.24	51.92
DPS (Rs)	200.0	220.0	257.6	302.0	338.7
Dividend Yield	0.97%	1.02%	1.45%	1.70%	1.90%
EV/EBITDA (x)	57.66	52.95	46.26	39.62	35.27
P/FCFE (x)	138.49	91.00	82.08	53.66	47.11
Net Gearing	(27.3%)	(36.3%)	(17.6%)	(30.5%)	(47.0%)
P/BV (x)	102.37	81.02	79.81	78.43	76.95
ROE	120.3%	113.2%	117.8%	135.8%	149.6%
% Change In Core EPS Estimates			3.10%	3.35%	
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

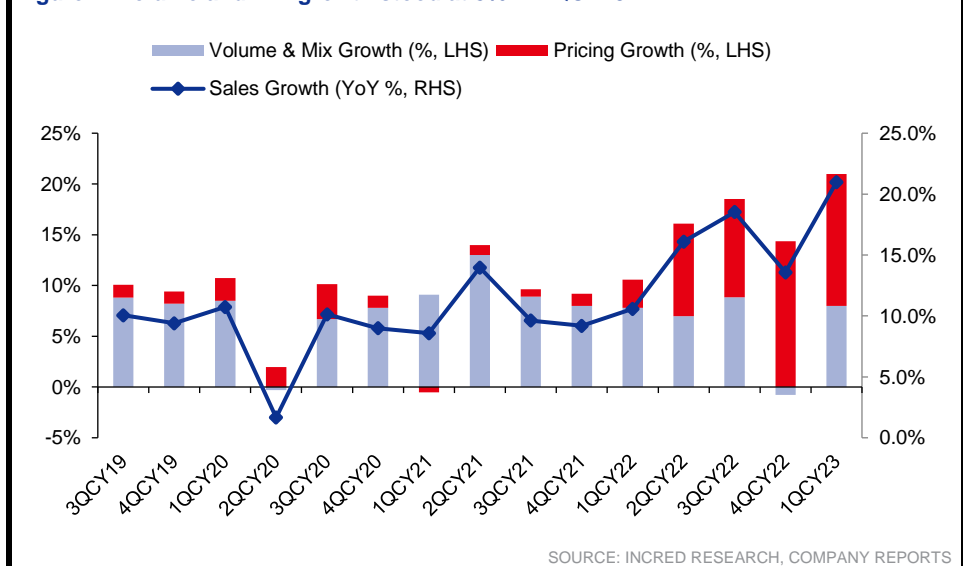
## Strong sales growth offset by weak margins

Figure 1: Quarterly summary - standalone

Y/E, Dec (Rs. m)	1QCY22	4QCY22	1QCY23	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>39,926</b>	<b>42,568</b>	<b>48,305</b>	<b>21.0</b>	<b>13.5</b>
<b>Expenditure</b>	<b>31,072</b>	<b>33,286</b>	<b>37,721</b>	<b>21.4</b>	<b>13.3</b>
Consumption of raw materials	17,850	19,215	22,315	25.0	16.1
as % of sales	44.7	45.1	46.2		
Employee cost	4,339	4,518	4,913	13.2	8.7
as % of sales	10.9	10.6	10.2		
Other expenditure	8,822	9,649	10,461	18.6	8.4
as % of sales	22.1	22.7	21.7		
Provision for contingency	62	-95	32	-48.4	-133.4
as % of sales	0.2	-0.2	0.1		
<b>EBITDA</b>	<b>8,854</b>	<b>9,282</b>	<b>10,585</b>	<b>19.5</b>	<b>14.0</b>
Depreciation	1,045	987	1,017	-2.7	3.1
<b>EBIT</b>	<b>7,809</b>	<b>8,295</b>	<b>9,568</b>	<b>22.5</b>	<b>15.3</b>
Other income	214	296	337	57.1	14.0
Interest cost	0	0	0	NA	NA
<b>PBT</b>	<b>8,024</b>	<b>8,591</b>	<b>9,905</b>	<b>23.4</b>	<b>15.3</b>
Total tax	2,115	2,310	2,538	20.0	9.9
<b>Adjusted PAT</b>	<b>5,908</b>	<b>6,281</b>	<b>7,366</b>	<b>24.7</b>	<b>17.3</b>
Extraordinary items	0	0	0	NA	NA
<b>Reported PAT</b>	<b>5,908</b>	<b>6,281</b>	<b>7,366</b>	<b>24.7</b>	<b>17.3</b>
<b>Adjusted EPS</b>	<b>61.3</b>	<b>65.1</b>	<b>76.4</b>	<b>24.7</b>	<b>17.3</b>
<b>Margins (%)</b>	<b>1QCY22</b>	<b>4QCY22</b>	<b>1QCY23</b>	<b>YoY (bp)</b>	<b>QoQ (bp)</b>
Gross margin	55.3	54.9	53.8	-150	-110
EBITDA	22.2	21.8	21.9	-30	10
EBIT	19.6	19.5	19.8	20	30
EBT	20.1	20.2	20.5	40	30
PAT	14.8	14.8	15.2	50	50
Effective tax rate	26.4	26.9	25.6	-70	-130

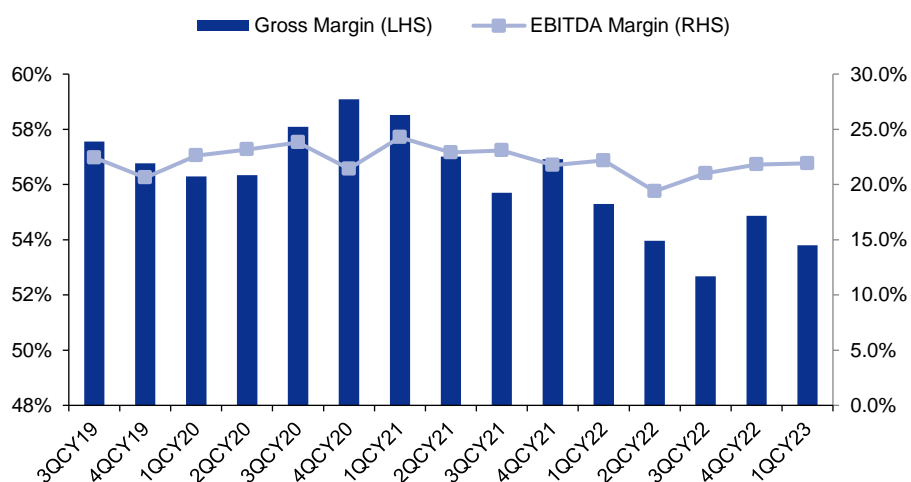
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Volume and mix growth stood at 8% in 1QCY23



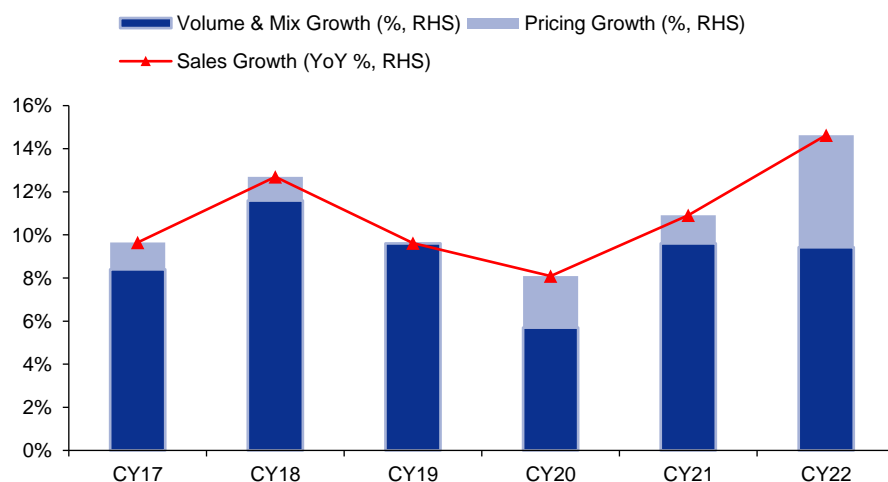
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: EBITDA margin contraction was limited to 30bp yoy in 1QCY23**



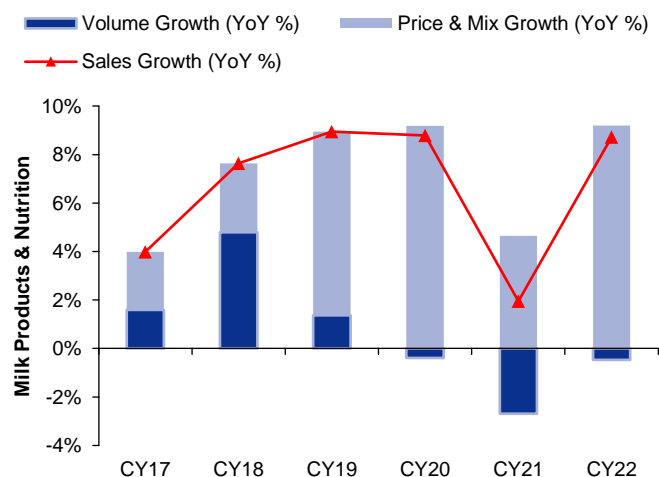
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Sales growth stood at 14.6% yoy in CY22**



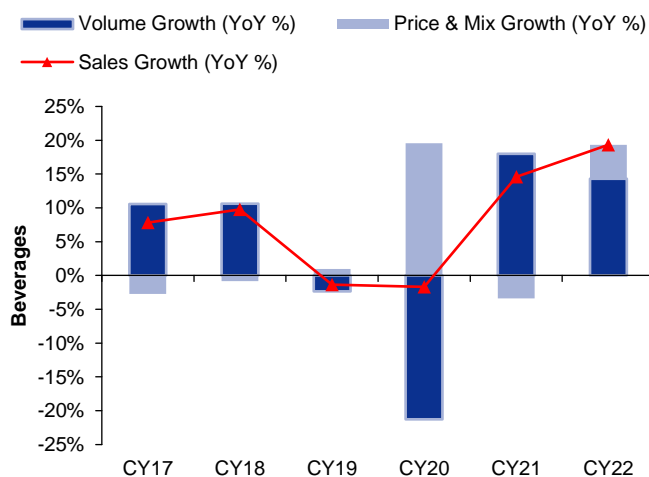
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Milk products & nutrition grew 5.9% on a CAGR basis during CY17-22**



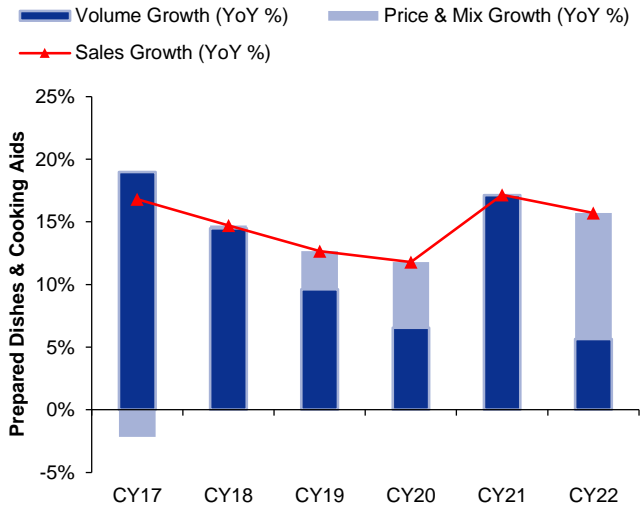
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Beverages grew at a 6.5% CAGR over CY17-22**



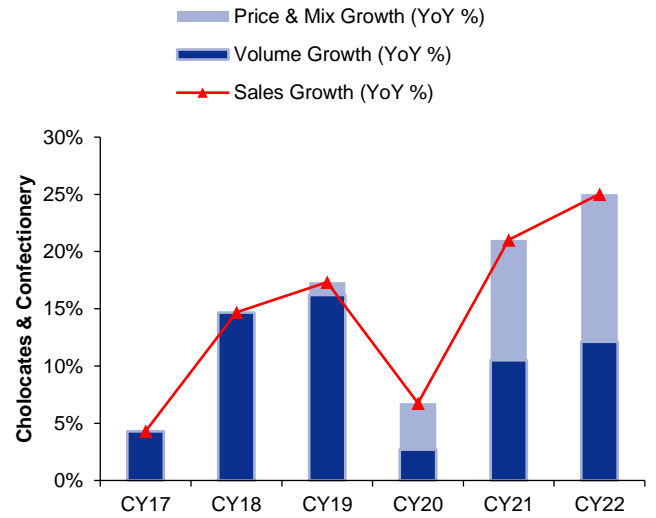
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Prepared dishes & cooking aids grew at a 11.8% CAGR over CY17-22**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 8: Chocolate & confectionery portfolio grew at a 13.8% CAGR over CY17-22**



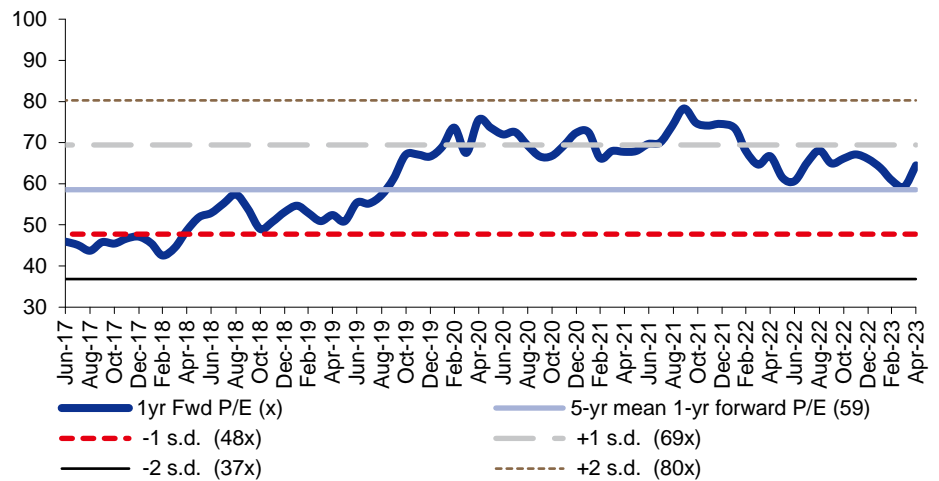
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: Our revised estimates**

Y/E, Dec (Rs. m)	CY23F			CY24F			FY25F
	Previous	Revised	% Change	Previous	Revised	% Change	
Net revenue	1,88,466	1,93,322	2.6	2,10,342	2,17,442	3.4	2,41,941
EBITDA	41,046	42,979	4.7	47,812	50,100	4.8	56,147
EBITDA Margin (%)	21.8	22.2	50 bps	22.7	23.0	30 bps	23.2
Net Profit	28,308	29,185	3.1	33,103	34,213	3.4	38,374
EPS	293.6	302.7	3.1	343.3	354.8	3.4	398.0

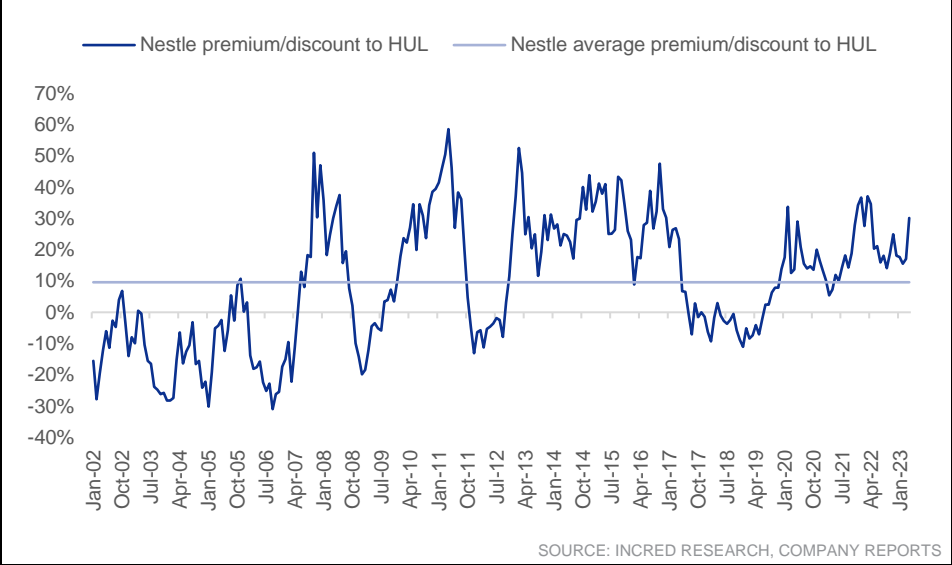
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 10: Nestle India's one-year forward P/E trades between five-year average mean and +1SD**

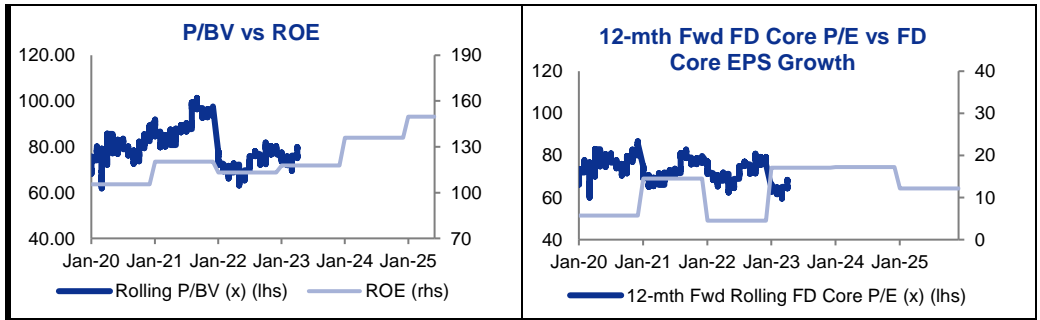


SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 11: On one-year forward P/E basis, Nestle India trades at a 30% premium to Hindustan Unilever (HUL)**



## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>Total Net Revenues</b>	<b>147,406</b>	<b>168,970</b>	<b>193,322</b>	<b>217,442</b>	<b>241,941</b>
<b>Gross Profit</b>	<b>83,924</b>	<b>91,471</b>	<b>105,940</b>	<b>122,855</b>	<b>137,907</b>
<b>Operating EBITDA</b>	<b>34,464</b>	<b>37,463</b>	<b>42,979</b>	<b>50,100</b>	<b>56,147</b>
Depreciation And Amortisation	(3,910)	(4,030)	(4,509)	(4,978)	(5,446)
<b>Operating EBIT</b>	<b>30,554</b>	<b>33,433</b>	<b>38,470</b>	<b>45,122</b>	<b>50,701</b>
Financial Income/(Expense)	681	148	969	1,112	1,155
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
<b>Profit Before Tax (pre-EI)</b>	<b>31,235</b>	<b>33,580</b>	<b>39,439</b>	<b>46,234</b>	<b>51,857</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>31,235</b>	<b>33,580</b>	<b>39,439</b>	<b>46,234</b>	<b>51,857</b>
Taxation	(7,389)	(8,655)	(10,254)	(12,021)	(13,483)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>23,846</b>	<b>24,926</b>	<b>29,185</b>	<b>34,213</b>	<b>38,374</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>23,846</b>	<b>24,926</b>	<b>29,185</b>	<b>34,213</b>	<b>38,374</b>
Recurring Net Profit	23,846	24,926	29,185	34,213	38,374
<b>Fully Diluted Recurring Net Profit</b>	<b>23,846</b>	<b>24,926</b>	<b>29,185</b>	<b>34,213</b>	<b>38,374</b>

### Cash Flow

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
<b>EBITDA</b>	<b>34,464</b>	<b>37,463</b>	<b>42,979</b>	<b>50,100</b>	<b>56,147</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,316)	(1,422)	(3,418)	3,942	4,476
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,202	1,010	1,177	1,329	1,381
Net Interest (Paid)/Received	(521)	(862)	(209)	(217)	(226)
Tax Paid	(7,389)	(8,655)	(10,254)	(12,021)	(13,483)
<b>Cashflow From Operations</b>	<b>14,439</b>	<b>27,534</b>	<b>30,276</b>	<b>43,132</b>	<b>48,296</b>
Capex	(8,139)	(5,642)	(6,000)	(6,000)	(6,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	6,898	(36)			
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(1,241)</b>	<b>(5,677)</b>	<b>(6,000)</b>	<b>(6,000)</b>	<b>(6,000)</b>
Debt Raised/(repaid)	1,190	41			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19,283)	(20,247)	(28,811)	(33,775)	(37,882)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>(18,093)</b>	<b>(20,207)</b>	<b>(28,811)</b>	<b>(33,775)</b>	<b>(37,882)</b>
Total Cash Generated	(4,895)	1,650	(4,535)	3,358	4,413
<b>Free Cashflow To Equity</b>	<b>14,388</b>	<b>21,897</b>	<b>24,276</b>	<b>37,132</b>	<b>42,296</b>
<b>Free Cashflow To Firm</b>	<b>13,719</b>	<b>22,719</b>	<b>24,485</b>	<b>37,349</b>	<b>42,522</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Cash And Equivalents	7,987	11,629	7,094	10,451	14,865
Total Debtors	1,660	1,919	2,170	2,441	2,716
Inventories	15,927	19,288	19,732	22,194	24,695
Total Other Current Assets	16,993	17,073	17,197	17,295	17,394
<b>Total Current Assets</b>	<b>42,566</b>	<b>49,909</b>	<b>46,193</b>	<b>52,381</b>	<b>59,669</b>
Fixed Assets	32,409	34,021	35,512	36,534	37,088
Total Investments	7,107	5,602	5,602	5,602	5,602
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>39,516</b>	<b>39,623</b>	<b>41,113</b>	<b>42,136</b>	<b>42,690</b>
Short-term Debt	487	532	532	532	532
Current Portion of Long-Term Debt					
Total Creditors	17,482	19,338			
Other Current Liabilities	25,972	28,832	25,223	28,075	31,171
<b>Total Current Liabilities</b>	<b>43,941</b>	<b>48,702</b>	<b>25,755</b>	<b>28,607</b>	<b>31,703</b>
Total Long-term Debt	2,178	2,173	2,173	2,173	2,173
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>2,178</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>	<b>2,173</b>
Total Provisions	33,982	33,403	34,412	38,332	42,587
<b>Total Liabilities</b>	<b>80,100</b>	<b>84,278</b>	<b>62,341</b>	<b>69,113</b>	<b>76,463</b>
Shareholders Equity	19,464	24,592	24,966	25,404	25,895
Minority Interests					
<b>Total Equity</b>	<b>19,464</b>	<b>24,592</b>	<b>24,966</b>	<b>25,404</b>	<b>25,895</b>

### Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	10.9%	14.6%	14.4%	12.5%	11.3%
Operating EBITDA Growth	14.7%	8.7%	14.7%	16.6%	12.1%
Operating EBITDA Margin	23.4%	22.2%	22.2%	23.0%	23.2%
Net Cash Per Share (Rs)	55.20	92.55	45.51	80.34	126.11
BVPS (Rs)	201.86	255.05	258.93	263.47	268.57
Gross Interest Cover	58.66	38.77	184.30	207.77	224.31
Effective Tax Rate	23.7%	25.8%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	80.9%	81.2%	98.7%	98.7%	98.7%
Accounts Receivables Days	4.10	3.87	3.86	3.87	3.89
Inventory Days	86.51	82.93	81.49	80.89	82.25
Accounts Payables Days	93.86	86.71	40.39		
ROIC (%)	129.8%	138.5%	77.9%	89.5%	100.0%
ROCE (%)	143.9%	138.8%	143.7%	166.1%	183.3%
Return On Average Assets	28.8%	28.9%	31.9%	36.4%	37.8%

### Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Volume growth %	10.9%	5.2%	8.8%	8.5%	8.2%
Price & mix growth %	0.0%	9.4%	5.6%	3.9%	3.1%
Overall sales growth %	10.9%	14.6%	14.4%	12.5%	11.3%
EBITDA margin %	23.4%	22.2%	22.2%	23.0%	23.2%
Prepared dishes growth %	17.1%	15.7%	18.8%	16.0%	14.4%
Milk products & nutrition growth %	1.9%	8.7%	9.6%	6.6%	6.0%
Beverages growth %	14.6%	19.3%	16.6%	13.9%	12.3%
Chocolate & confectionery growth %	21.0%	25.0%	21.0%	18.2%	15.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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