

India

HOLD (no change)

Consensus ratings*: Buy 20 Hold 11 Sell 5

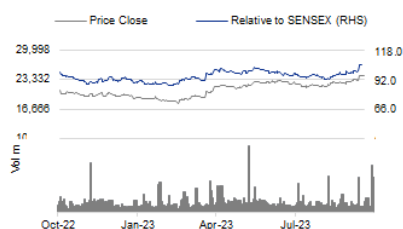
Current price: Rs24,263
 Target price: ▲ Rs24,235
 Previous target: Rs22,490
 Up/downside: 0.0%
 InCred Research / Consensus: 0.7%

Reuters: NEST.NS
 Bloomberg: NEST IN
 Market cap: US\$28,120m
 Rs2,339,306m
 Average daily turnover: US\$19.2m
 Rs1596.1m
 Current shares o/s: 96.4m
 Free float: 37.2%

*Source: Bloomberg

Key changes in this note

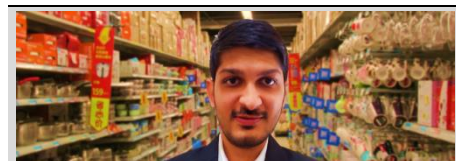
- Raise target price to Rs24,235 from Rs22,490 earlier.
- Raise CY24F/25F EPS by 2-3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.5	6.4	19.6
Relative (%)	8.6	10.8	11.2

Major shareholders	% held
Promoters	62.8
LIC	1.9
Vanguard Group	1.5

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Nestle India Ltd

Sustenance of volume growth is key

- Nestle India's 3QCY23 domestic sales grew 10.3% yoy (4-year CAGR of 12.2% vs. 11.7% in 2Q). Exports fell 9.6% yoy (+3.8% on a 4-year CAGR).
- Gross margin rose by 380bp yoy (up 170bp qoq) to 56.5% driven by input cost moderation. The EBITDA margin expanded by 270bp yoy to 23.7%.
- The ability to post sustained volume growth is a key monitorable. Stretched valuation limits the upside. Retain HOLD rating with a new TP of Rs24,235.

Sustenance of volume growth remains a key monitorable

Nestle India posted 3QCY23 revenue growth of 9.5% yoy to Rs50.4bn. Domestic sales grew 10.3% yoy. We estimate volume growth to be in mid-single digit (c.7% on a 4-year CAGR vs. 6% in 1Q). Pricing growth tapered off from a high of 13-14% in 4QCY22-1QCY23 to c.5% in 3Q and may taper off further as commodity prices stabilize. Exports fell 9.6% yoy (4-year CAGR of 3.8% vs. 7.7% in 1Q). The milk products & nutrition segment posted a double-digit growth led by pricing. The growth was secular across town classes. Network expansion aided general trade (GT) growth while the e-commerce growth momentum continued and is now at 6.1% of sales, aided by quick commerce channels, which are now as significant for Nestle India as platforms like Amazon, as per management. The out-of-home (OOH) business continued to post double-digit growth led by premiumization and network expansion.

Key brands continue to deliver strong growth

Prepared dishes and cooking aids grew 10.7% yoy (31.6% of sales), milk products and nutrition grew 15.3% yoy (40.5% of sales), confectionery grew 21.4% yoy (16.8% of sales) and beverages grew 18.6% yoy (11.1% of sales) as of 9MCY23-end. The out-of-home (OOH) channel grew 30% yoy. New launches (NPD) contributed 6.1% to sales in 9MCY23.

Commodity prices likely to remain firm in near term

The gross margin expanded by 380bp yoy (up 170bp qoq) to 56.5% while the EBITDA margin expanded by 270bp yoy to 23.7% led by operating leverage, as employee costs were up 20% yoy (10.9% of sales, up 96bp yoy) and other expenses rose 10.9% (21.9% of sales, up 28bp yoy). Prices of fresh milk are expected to remain stable due to healthy milk flush in winter but uneven rains are expected to hit the production of maize, sugar, oilseeds and spices. Green coffee prices are also expected to remain volatile.

Rich valuation limits upside; maintain HOLD rating

Volume growth sustenance/acceleration remains key as pricing tapers off. We believe the strong earnings momentum is priced in and stretched valuation limits the upside. We raise our CY24F/25F EPS by 2-3% and maintain our HOLD rating on Nestle India with a higher target price of Rs24,235, as we roll forward (60x Sep 2025F EPS) from Rs22,490 earlier. Upside risk: Higher-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	194,311	217,115	241,845
Operating EBITDA (Rsm)	34,464	37,463	44,417	51,890	58,638
Net Profit (Rsm)	23,846	24,926	30,249	35,480	40,101
Core EPS (Rs)	247.3	258.5	313.7	368.0	415.9
Core EPS Growth	14.5%	4.5%	21.4%	17.3%	13.0%
FD Core P/E (x)	98.11	93.86	77.34	65.94	58.34
DPS (Rs)	200.0	220.0	267.0	313.2	353.9
Dividend Yield	0.82%	0.87%	1.10%	1.29%	1.46%
EV/EBITDA (x)	67.72	62.21	52.48	44.81	39.48
P/FCFE (x)	162.60	106.84	92.54	65.01	53.18
Net Gearing	(27.3%)	(36.3%)	(29.1%)	(41.5%)	(59.8%)
P/BV (x)	120.19	95.13	80.40	68.04	57.97
ROE	120.3%	113.2%	112.7%	111.8%	107.3%
% Change In Core EPS Estimates			0.61%	2.32%	3.26%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Sustenance of volume growth is key

Key takeaways from the analyst meet

Highlights

- **Demand (long-term view):** Nestle India's management does not believe that there will ever be a consumption problem in India, but the challenge will be on driving consumption. Management stated that Nestle's total addressable market or TAM for Gen-Zs in India stood at 470m (expected to go above 700m over the next few years). Penetration remains at 40-80%, varying across segments (US\$40bn market size for branded and packaged F&B products), as per management.
- **Premiumization:** Premium nutrition products account for 30% of the market but to price points, the rest of the market remains untouched. In the affordable segment, macro snacks (in less than Rs10/pack price points) have a market penetration of 72%. The focus going ahead will not only be on brand marketing but also on improving the service levels. New products (NPD) stood at 6.6% of sales. 10 new projects are in the innovation pipeline (expected to be launched over the next year). Nestle India will also be focusing on driving its millets range of products.
- **Distribution:** Total reach stood at 5.2m outlets through 10,000+ distributors and redistributors (distributors stood at 2,000+). Nestle India's 10th factory will be set up in Odisha. Feet-on-street has been expanded to 3,141 as of 9MCY23-end (vs. 3,020 in CY22). The number of RURBAN smart stores grew to 19,300 from 16,000 in 2022. HAAT store (rural) activations stood at 18,331 (vs. 20,605 in CY22), which are expected to top last year's levels by the end of the year. Distribution reach is almost close to its target in terms of numeric distribution (in rural markets), after which the focus will be on sweating assets (driving weighted distribution).
- **Category-wise performance (as of 9MCY23-end):** Prepared dishes and cooking aids grew 10.7% yoy (31.6% of sales), milk products and nutrition grew 15.3% yoy (40.5% of sales), confectionery grew 21.4% yoy (16.8% of sales) and beverages grew 18.6% yoy (11.1% of sales). The out-of-home (OOH) channel grew 30% yoy.
- **Near-term outlook on category-wise performance:** The nutrition portfolio is expected to take some time to pick up momentum while in the near term, noodles, confectionery and dairy portfolios are expected to drive growth.
- **Pet Care:** Integration with the Indian entity has been completed, and now it has a much higher coverage compared to earlier. Early reads on the cat food segment have been positive. Management is optimistic about driving growth from this business over the next few years.
- **Rural entrepreneurship program (Swabhimaan) and RURBAN expansion:** Generates business worth Rs80m through 1,600+ rural women entrepreneurs. Nestle India has 18,331 HAAT activations with more than 16,000 RURBAN distribution touchpoints (coverage across 7,405 towns).
- **Region-wise performance:** Mega cities have grown 15.4% on a 3-year CAGR basis while metro markets grew 21% in the same period. T1 markets grew 10.2%, T2-6 grew 11.2% while villages grew 26.6% on a 3-year CAGR basis. Nestle India has been deepening its rural reach with a target of 120,000 villages by 2024F, of which 1,07,844 are currently being serviced.
- **Digital analytics and technology:** Nestle India has been using its technology prowess to simplify and consolidate distribution, leveraging consumer insights (via MIDAS) and has also started a retailer self-order platform called Nesmitra. E-commerce grew 20% yoy in 9MCY23 (6.6% of sales in 9MCY23 vs. 6.5% in CY22). Quick commerce has been inching up strongly, with platforms like Blinkit now as important to Nestle India as Amazon.

Input costs and margins

- Barring green coffee (still not stabilized) most of the other raw material prices are stable (albeit at firm levels). Gross margin expansion was aided by lower raw material prices as well as better realization.
- **Advertising expenses:** Nestle India is spending a higher share of its advertising budget on digital channels, where management believes the company is able to drive more impressions in a more cost-efficient manner.
- **Royalty:** The company's board is still at a discussion stage with respect to royalty payments to the parent entity. The existing agreement with the parent is in place till Jun 2024. No decision has been taken yet on this matter.

Outlook

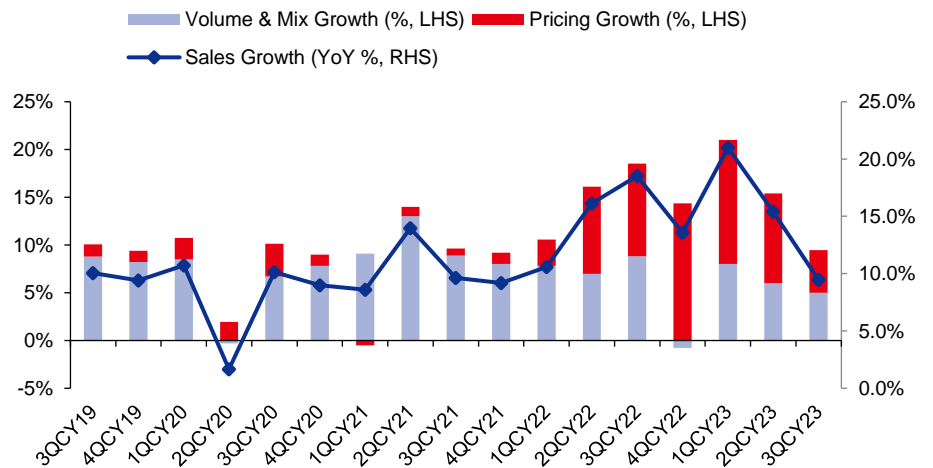
- Management aims to deliver consistent growth, maintaining the balance between growth and profitability.
- Nestle India to expand opportunities with newer cohorts of consumers as well as accelerate its thrust on RURBAN markets, aided by digital analytics.
- Investments in manufacturing and supply chains to continue. Nestle India has committed Rs50bn over 2023-25F.

Figure 1: Quarterly results summary - standalone

Y/E Dec (Rs. m)	3QCY22	2QCY23	3QCY23	YoY (%)	QoQ (%)	9MCY22	9MCY23	Gr (%)
Revenue	46,018	46,585	50,368	9.5	8.1	1,26,402	1,45,259	14.9
Expenditure	36,349	36,358	38,433	5.7	5.7	1,00,103	1,12,512	12.4
Consumption of raw materials	21,777	21,050	21,916	0.6	4.1	58,284	65,282	12.0
as % of sales	47.3	45.2	43.5			46.1	44.9	
Employee costs	4,572	4,900	5,490	20.1	12.0	13,382	15,303	14.3
as % of sales	9.9	10.5	10.9			10.6	10.5	
Other expenditure	9,940	10,374	11,020	10.9	6.2	28,179	31,855	13.0
as % of sales	21.6	22.3	21.9			22.3	21.9	
Provision for contingency	60	33	8	-87.1	-76.8	258	73	-71.8
as % of sales	0.1	0.1	0.0			0.2	0.1	
EBITDA	9,669	10,227	11,935	23.4	16.7	26,298	32,747	24.5
Depreciation	982	1,074	1,112	13.2	3.5	3,044	3,202	5.2
EBIT	8,687	9,154	10,823	24.6	18.2	23,255	29,545	27.0
Other income	306	240	333	8.6	38.9	715	909	27.2
Interest	0	0	0	NA	NA	0	0	NA
PBT	8,994	9,393	11,156	24.0	18.8	23,969	30,454	27.1
Total tax	2,379	2,410	3,139	32.0	30.3	6,344	8,088	27.5
Adjusted PAT	6,615	6,983	8,017	21.2	14.8	17,625	22,366	26.9
Extraordinary items	0	0	-1,064	NA	NA	0	-1,064	NA
Reported PAT	6,615	6,983	9,081	37.3	30.0	17,625	23,431	32.9
Adjusted EPS	68.6	72.4	83.1	21.2	14.8	182.8	232.0	26.9
Margins (%)	3QCY22	2QCY23	3QCY23	YoY (bp)	QoQ (bp)	9MCY22	9MCY23	(bp)
Gross margin	52.7	54.8	56.5	380	170	53.9	55.1	120
EBITDA	21.0	22.0	23.7	270	170	20.8	22.5	170
EBIT	18.9	19.6	21.5	260	180	18.4	20.3	190
EBT	19.5	20.2	22.1	260	200	19.0	21.0	200
PAT	14.4	15.0	15.9	150	90	13.9	15.4	150
Effective tax rate	26.5	25.7	28.1	170	250	26.5	26.6	10

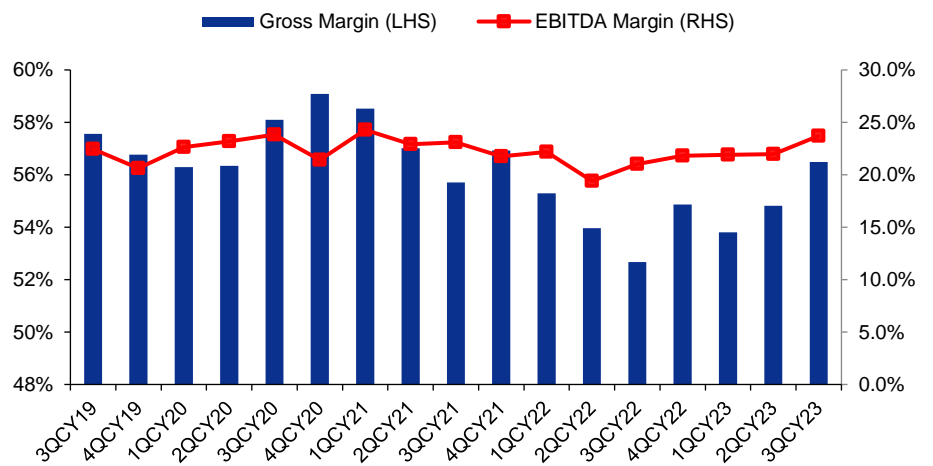
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Volume and mix stood at 5% in 3QCY23



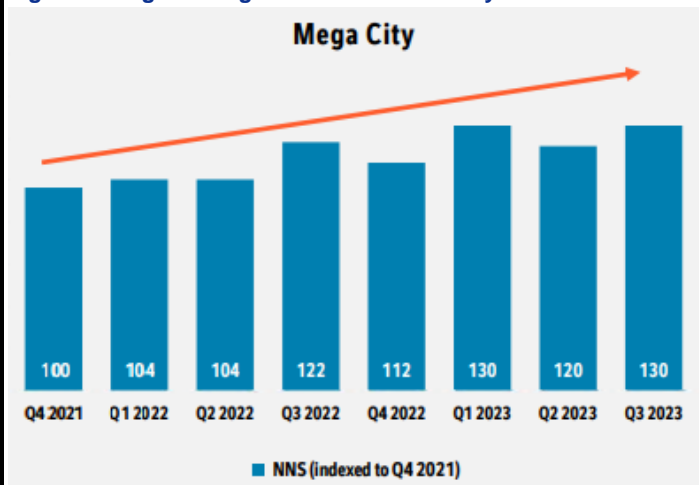
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Gross/EBITDA margins expanded by 380/270bp yoy to 56.5%/23.7%, respectively



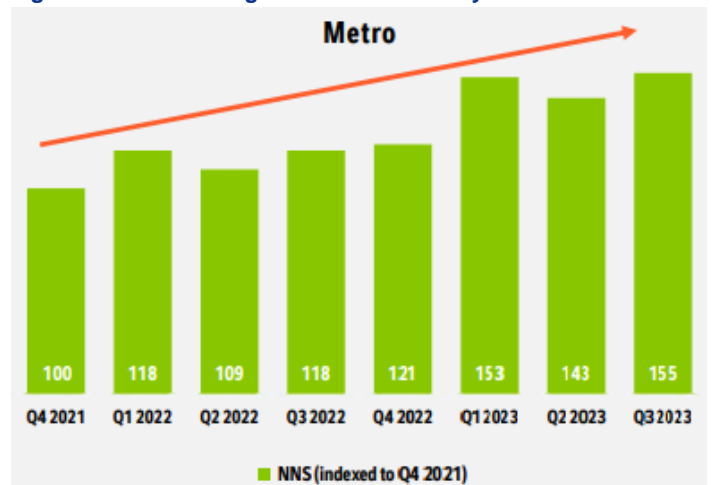
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Mega cities grew 15.4% on a three-year CAGR basis



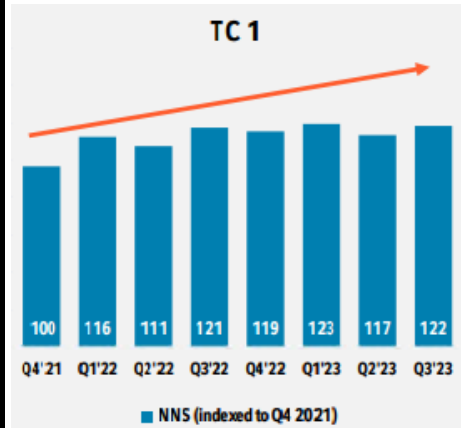
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Metro cities grew 21% on a three-year CAGR basis



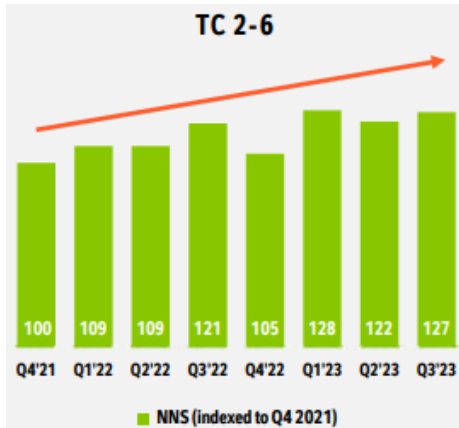
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Town class 1 grew 10.2% on a three-year CAGR basis



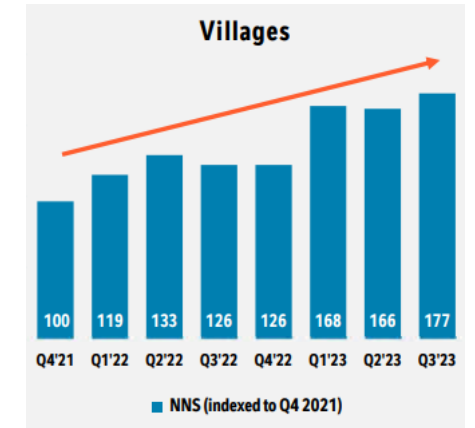
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Town class 2-6 grew 11.2% on a three-year CAGR basis



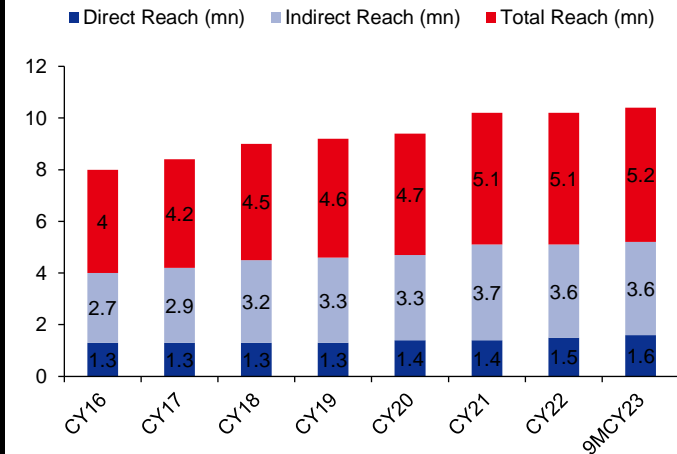
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Villages grew 26.6% on a three-year CAGR basis



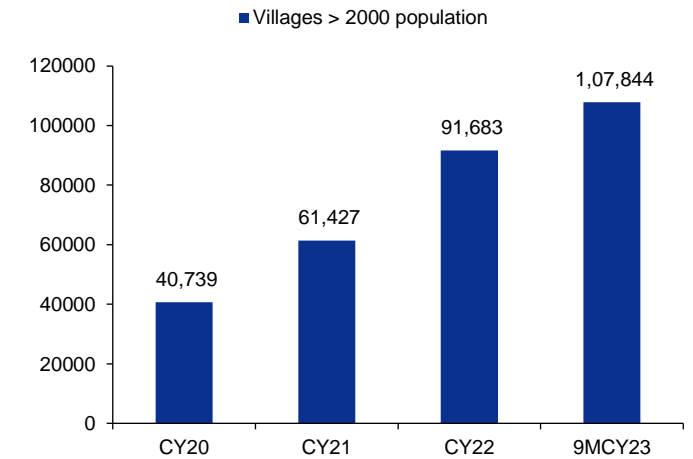
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Total reach stood at 5.2m outlets; direct reach improved to 1.6m outlets in 9MCY23



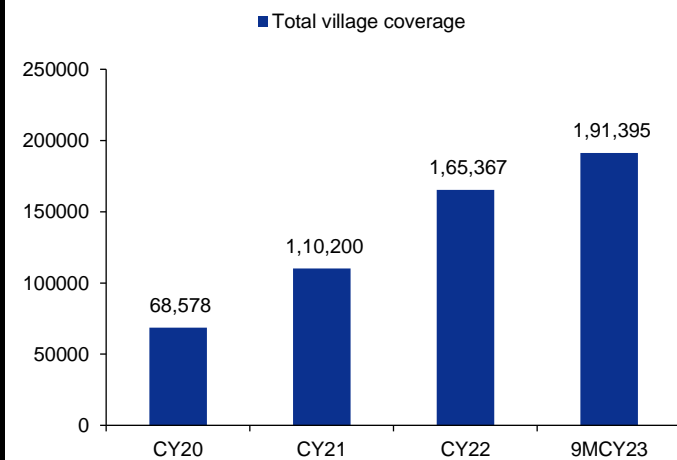
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Villages with a population above 2,000 stood at 1,07,844 in 9MCY23 (target of 1,20,000 by 2024F)



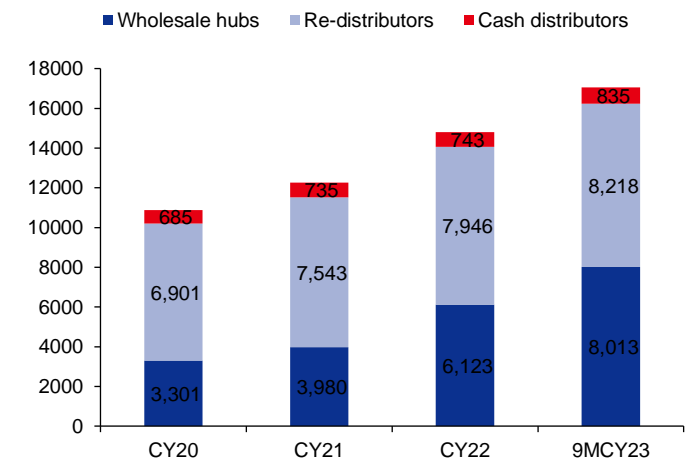
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Village reach stood at 1,91,395 in 9MCY23



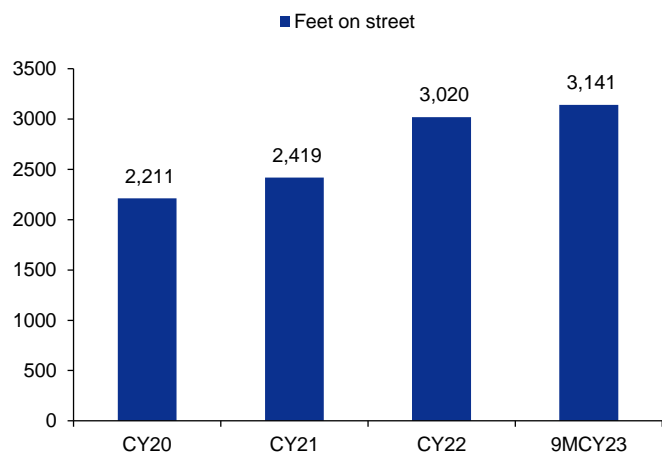
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Distribution infrastructure has been stepped up across categories



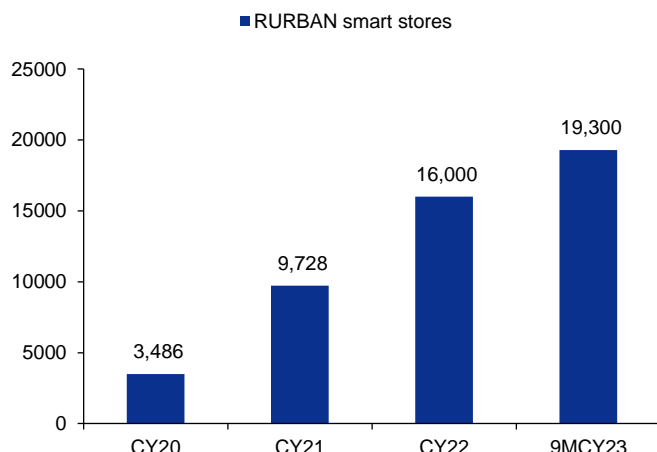
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Feet-on-street expanded to 3,141 as of 9MCY23 vs. 3,020 in CY22



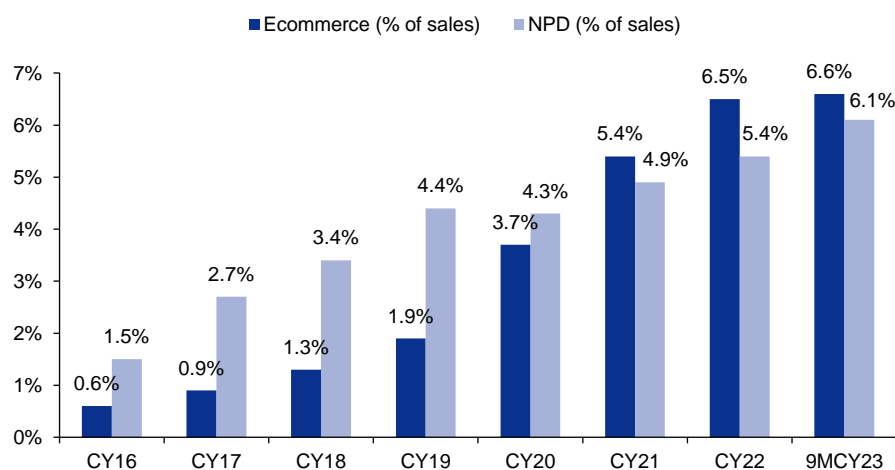
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Number of RURBAN smart stores stood at 19,300 in 9MCY23



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 15: E-commerce/NPD contribution stood at 6.6%/6.1% of sales, respectively, in 9MCY23



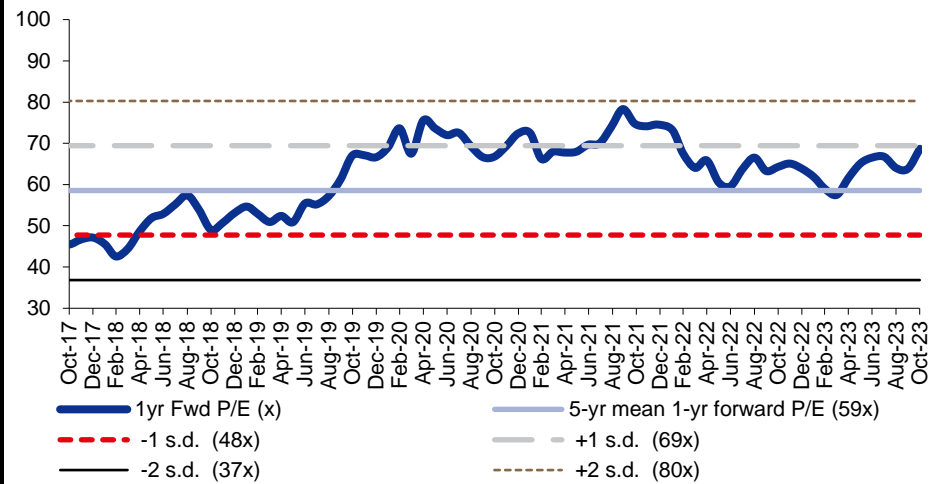
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Our revised earnings estimates

Y/E Dec (Rs. m)	CY23F			CY24F			CY25F		
	Previous	Revised	% Change	Previous	Revised	% Change	Previous	Revised	% Change
Net revenue	1,94,014	1,94,311	0.2	2,16,648	2,17,115	0.2	2,41,100	2,41,845	0.3
EBITDA	44,169	44,417	0.6	50,803	51,890	2.1	56,929	58,638	3.0
EBITDA Margin (%)	22.8	22.9	10 bp	23.4	23.9	50 bp	23.6	24.2	60 bp
Net Profit	30,066	30,249	0.6	34,676	35,480	2.3	38,837	40,101	3.3
EPS	311.8	313.7	0.6	359.6	368.0	2.3	402.8	415.9	3.3

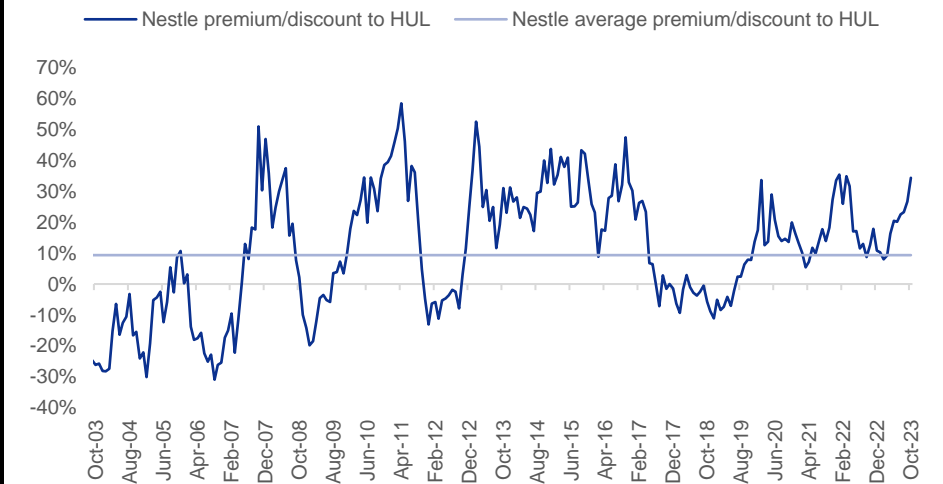
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 17: Nestle India's one-year forward P/E trades close to +1SD P/E



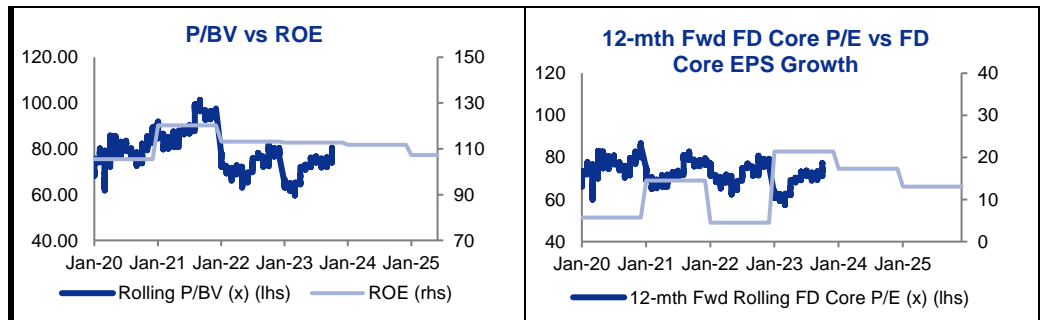
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 18: Nestle India trades at a 34% premium to Hindustan Unilever's valuation on a one-year forward P/E basis



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Net Revenues	147,406	168,970	194,311	217,115	241,845
Gross Profit	83,924	91,471	107,065	123,104	138,335
Operating EBITDA	34,464	37,463	44,417	51,890	58,638
Depreciation And Amortisation	(3,910)	(4,030)	(4,509)	(5,056)	(5,602)
Operating EBIT	30,554	33,433	39,908	46,834	53,036
Financial Income/(Expense)	681	148	969	1,112	1,155
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	31,235	33,580	40,877	47,946	54,191
Exceptional Items					
Pre-tax Profit	31,235	33,580	40,877	47,946	54,191
Taxation	(7,389)	(8,655)	(10,628)	(12,466)	(14,090)
Exceptional Income - post-tax					
Profit After Tax	23,846	24,926	30,249	35,480	40,101
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,846	24,926	30,249	35,480	40,101
Recurring Net Profit	23,846	24,926	30,249	35,480	40,101
Fully Diluted Recurring Net Profit	23,846	24,926	30,249	35,480	40,101

Cash Flow

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	34,464	37,463	44,417	51,890	58,638
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,316)	(1,422)	(3,478)	3,452	4,288
(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)	(10,628)	(12,466)	(14,090)
Cashflow From Operations	14,439	27,534	31,280	43,987	49,991
Capex	(8,139)	(5,642)	(6,000)	(8,000)	(6,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	6,898	(36)			
Other Investing Cashflow					
Cash Flow From Investing	(1,241)	(5,677)	(6,000)	(8,000)	(6,000)
Debt Raised/(repaid)	1,190	41			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19,283)	(20,247)	(25,742)	(30,194)	(34,127)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(18,093)	(20,207)	(25,742)	(30,194)	(34,127)
Total Cash Generated	(4,895)	1,650	(463)	5,793	9,864
Free Cashflow To Equity	14,388	21,897	25,280	35,987	43,991
Free Cashflow To Firm	13,719	22,719	25,488	36,205	44,217

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	11,166	16,960	26,824
Total Debtors	1,660	1,919	2,058	2,299	2,561
Inventories	15,927	19,288	20,248	22,624	25,201
Total Other Current Assets	16,993	17,073	17,136	17,221	17,314
Total Current Assets	42,566	49,909	50,608	59,104	71,899
Fixed Assets	32,409	34,021	35,512	38,456	38,854
Total Investments	7,107	5,602	5,602	5,602	5,602
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	39,516	39,623	41,113	44,058	44,456
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	27,183	29,963	33,224
Total Current Liabilities	43,941	48,702	27,715	30,496	33,756
Total Long-term Debt	2,178	2,173	2,173	2,173	2,173
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	2,178	2,173	2,173	2,173	2,173
Total Provisions	33,982	33,403	32,735	36,110	40,067
Total Liabilities	80,100	84,278	62,623	68,778	75,997
Shareholders Equity	19,464	24,592	29,098	34,384	40,358
Minority Interests					
Total Equity	19,464	24,592	29,098	34,384	40,358

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	10.9%	14.6%	15.0%	11.7%	11.4%
Operating EBITDA Growth	14.7%	8.7%	18.6%	16.8%	13.0%
Operating EBITDA Margin	23.4%	22.2%	22.9%	23.9%	24.2%
Net Cash Per Share (Rs)	55.20	92.55	87.75	147.84	250.14
BVPS (Rs)	201.86	255.05	301.78	356.60	418.56
Gross Interest Cover	58.66	38.77	191.19	215.65	234.64
Effective Tax Rate	23.7%	25.8%	26.0%	26.0%	26.0%
Net Dividend Payout Ratio	80.9%	81.2%	85.1%	85.1%	85.1%
Accounts Receivables Days	4.10	3.87	3.73	3.66	3.67
Inventory Days	86.51	82.93	82.70	83.23	84.32
Accounts Payables Days	93.86	86.71	40.45		
ROIC (%)	129.8%	138.5%	83.5%	92.5%	104.6%
ROCE (%)	143.9%	138.8%	138.5%	139.2%	135.2%
Return On Average Assets	28.8%	28.9%	32.3%	35.3%	35.5%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Volume growth %	10.9%	5.2%	8.9%	8.6%	8.2%
Price & mix growth %	N/A	9.4%	6.1%	3.1%	3.2%
Overall sales growth %	10.9%	14.6%	15.0%	11.7%	11.4%
EBITDA margin %	23.4%	22.2%	22.9%	23.9%	24.2%
Prepared dishes growth %	17.1%	15.7%	18.8%	16.0%	14.4%
Milk products & nutrition growth %	1.9%	8.7%	11.1%	4.8%	6.4%
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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