

India

HOLD (no change)

Consensus ratings*: Buy 19 Hold 11 Sell 7

Current price:	Rs2,500
Target price:	Rs2,636
Previous target:	Rs2,423
Up/downside:	5.4%
InCred Research / Consensus:	8.8%
Reuters:	NEST.NS
Bloomberg:	NEST IN
Market cap:	US\$29,047m Rs2,410,007m
Average daily turnover:	US\$23.4m Rs1941.0m
Current shares o/s:	964.2m
Free float:	37.2%

*Source: Bloomberg

Key changes in this note

- Raise TP to Rs2,636 from Rs2,423.
- Raise FY25F/26F EPS by 0.8%/0.6%.

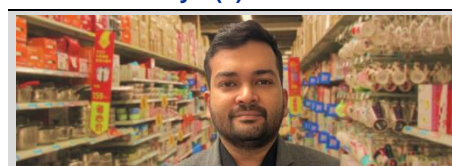


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.3)	2.6	31.7
Relative (%)	(7.3)	(7.6)	10.7

Major shareholders	% held
Promoters	62.8
LIC	1.8
Vanguard Group	1.5

Research Analyst(s)



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Nestle India Ltd

Ability to sustain volume growth is key

- Nestle India's 4QCY23 domestic sales grew 8.9% yoy (four-year CAGR of 10.5% vs. 12.2% in 3Q). Exports fell 5.6% yoy (-1.2% on a four-year CAGR).
- Gross margin rose by 370bp yoy (up 480bp qoq) to 58.6% driven by input cost moderation. The EBITDA margin expanded by 150bp yoy to 23.3%.
- The ability to post sustained volume growth is a key monitorable. Lofty valuation limits the upside. Retain HOLD rating with a higher TP of Rs2,636.

RURBAN strategy has yielded positive results

Nestle India posted 4QCY23 revenue growth of 8.1% yoy to Rs46bn. Domestic sales grew 8.9% yoy. Exports declined by 5.6% yoy (four-year CAGR of -1.2%). The milk products & nutrition segment posted double-digit growth. The growth was secular across town classes. The company's RURBAN strategy has yielded positive results, aiding growth during the quarter and was supported by the expansion of NesMitra (e-B2B app). Direct reach in villages was expanded by 5,300 this quarter, reaching a total of 1,96,000 villages by the end of 3Q (target of reaching 2,00,000 villages). E-commerce channel growth momentum continued and is now at 7% of domestic sales, aided by quick commerce channels, which are now as significant for Nestle India as platforms like Amazon.

Key brands continue to post strong growth

Prepared dishes and cooking aids continued their growth momentum, aided by the company's strong focus on strengthening its RURBAN presence. Milk products & nutrition and beverages business posted double-digit growth led by expansion in South India & improved market penetration. The confectionery business continued to post healthy growth. Out-of-home channels continued to accelerate rapidly and is now the fastest-growing division in the company.

Commodity prices likely to remain firm in near term

The company's gross margin expanded by 370bp yoy (up 480bp qoq) to 58.6% while the EBITDA margin expanded by 150bp yoy to 23.3% led by controlled employee costs (9.6% of sales, down 98bp yoy) and higher other expenses (25.6% of sales, up 292bp yoy). Prices of fresh milk are expected to remain stable due to healthy milk flush in winter but the uneven rainfall is likely to impact the production of maize, sugar, oilseeds and spices, which may impact pricing. Green coffee prices are also expected to remain volatile.

Rich valuation limits the upside; maintain HOLD rating

Volume growth sustenance/acceleration remains key as pricing tapers off. We believe the strong earnings momentum is priced in and the stretched valuation limits the upside. We raise our CY25F/26F EPS by 0.8%/0.6% and maintain our HOLD rating on Nestle India with a higher target price of Rs2,636 (Rs2,423 earlier) as we roll forward our valuation (63x Dec 2025F EPS). Upside risk: Higher-than-expected margin recovery. Downside risk: Deceleration in sales growth.

Financial Summary

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue (Rsm)	147,406	168,970	191,263	213,203	237,445
Operating EBITDA (Rsm)	34,464	37,463	44,710	51,875	58,537
Net Profit (Rsm)	23,846	24,926	30,044	35,757	40,346
Core EPS (Rs)	24.7	25.9	31.2	37.1	41.8
Core EPS Growth	14.5%	4.5%	20.5%	19.0%	12.8%
FD Core P/E (x)	101.07	96.69	80.22	67.40	59.74
DPS (Rs)	20.0	21.0	24.2	30.1	34.0
Dividend Yield	0.80%	0.84%	0.97%	1.21%	1.36%
EV/EBITDA (x)	69.78	64.10	53.72	46.25	40.80
P/FCFE (x)	167.51	110.07	130.63	76.17	54.91
Net Gearing	(27.3%)	(36.3%)	(27.0%)	(29.1%)	(48.8%)
P/BV (x)	123.83	98.01	77.93	64.03	53.31
ROE	120.3%	113.2%	108.2%	104.3%	97.4%
% Change In Core EPS Estimates				0.78%	0.61%
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Ability to sustain volume growth is key

Figure 1: Quarterly results summary - standalone

Y/E Dec (Rs. m)	4QCY22	1QCY23	4QCY23	YoY (%)	QoQ (%)	CY22	CY23	Gr (%)
Revenue	42,568	48,305	46,004	8.1	-4.8	1,68,970	1,91,263	13.2
Expenditure	33,286	37,721	35,283	6.0	-6.5	1,33,390	1,47,746	10.8
Consumption of RM	19,215	22,315	19,046	-0.9	-14.7	77,499	84,327	8.8
as % of Sales	45.1	46.2	41.4			45.9	44.1	
Employee Costs	4,518	4,913	4,431	-1.9	-9.8	17,900	19,685	10.0
as % of Sales	10.6	10.2	9.6			10.6	10.3	
Other Expenditure	9,649	10,461	11,772	22.0	12.5	37,828	43,627	15.3
as % of Sales	22.7	21.7	25.6			22.4	22.8	
Provision for contingency	-95	32	35	-136.6	9.7	163	108	-33.9
as % of Sales	-0.2	0.1	0.1			0.1	0.1	
EBITDA	9,282	10,585	10,722	15.5	1.3	35,580	43,517	22.3
Depreciation	987	1,017	1,087	10.2	6.9	4,030	4,289	6.4
EBIT	8,295	9,568	9,635	16.1	0.7	31,550	39,228	24.3
Other Income	296	337	303	2.5	-10.1	1,010	1,212	20.0
Interest	0	0	0	NA	NA	0	0	NA
PBT	8,591	9,905	9,938	15.7	0.3	32,560	40,440	24.2
Total Tax	2,310	2,538	2,309	-0.1	-9.0	8,655	10,396	20.1
Adjusted PAT	6,281	7,366	7,629	21.5	3.6	23,905	30,044	25.7
Extraordinary items	0	0	1,073	NA	NA	0	57	NA
Reported PAT	6,281	7,366	6,556	4.4	-11.0	23,905	29,987	25.4
Adjusted EPS	6.5	7.6	7.9	21.5	3.6	24.8	31.2	25.7
Margins (%)	4QCY22	1QCY23	4QCY23	YoY (bp)	QoQ (bp)	CY22	CY23	(bp)
Gross Margin	54.9	53.8	58.6	370	480	54.1	55.9	180
EBITDA	21.8	21.9	23.3	150	140	21.1	22.8	170
EBIT	19.5	19.8	20.9	150	110	18.7	20.5	180
EBT	20.2	20.5	21.6	140	110	19.3	21.1	190
PAT	14.8	15.2	16.6	180	130	14.1	15.7	160
Effective Tax Rate	26.9	25.6	23.2	-370	-240	26.6	25.7	-90

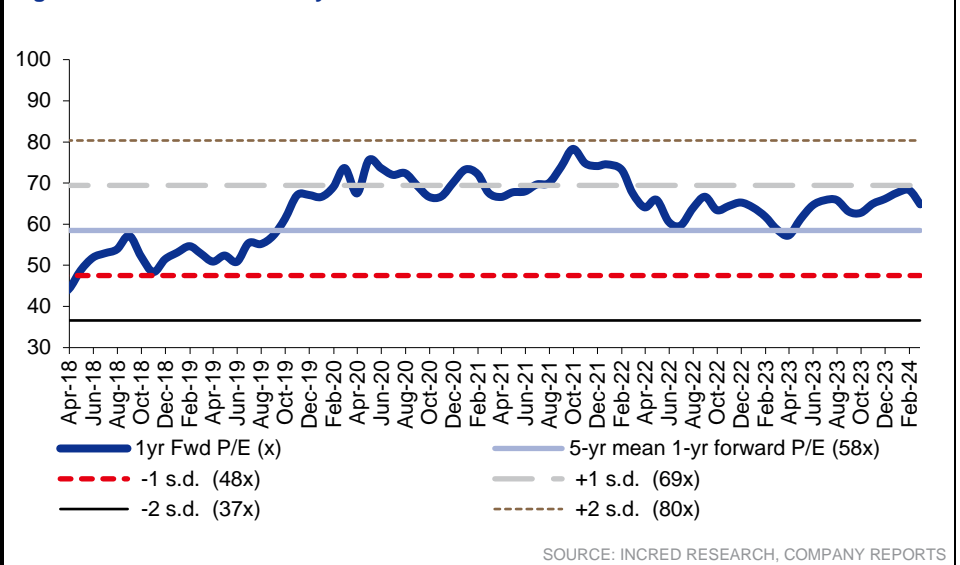
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

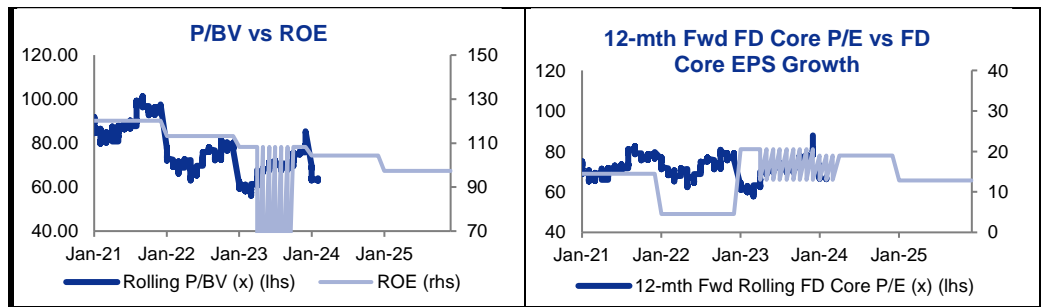
Y/E Dec (Rs. m)	CY23			CY24F			CY25F		
	Previous	Revised	% Change	Previous	Revised	% Change	Previous	Revised	% Change
Net revenue	1,94,311	1,91,263	(1.6)	2,17,115	2,13,203	(1.8)	2,41,845	2,37,445	(1.8)
EBITDA	44,417	44,710	0.7	51,890	51,875	(0.0)	58,638	58,537	(0.2)
EBITDA Margin (%)	22.9	23.4	50 bps	23.9	24.3	40 bps	24.2	24.7	40 bps
Net Profit	30,249	30,044	(0.7)	35,480	35,757	0.8	40,101	40,346	0.6
EPS	31.4	31.2	(0.7)	36.8	37.1	0.8	41.6	41.8	0.6

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Nestle India's one-year forward P/E trades close to its +1 standard deviation



BY THE NUMBERS



Profit & Loss

(Rs mn)	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Total Net Revenues	147,406	168,970	191,263	213,203	237,445
Gross Profit	83,924	91,471	106,936	120,886	135,819
Operating EBITDA	34,464	37,463	44,710	51,875	58,537
Depreciation And Amortisation	(3,910)	(4,030)	(4,289)	(4,844)	(5,359)
Operating EBIT	30,554	33,433	40,421	47,031	53,178
Financial Income/(Expense)	681	148	19	1,290	1,344
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	31,235	33,580	40,440	48,321	54,522
Exceptional Items					
Pre-tax Profit	31,235	33,580	40,440	48,321	54,522
Taxation	(7,389)	(8,655)	(10,396)	(12,563)	(14,176)
Exceptional Income - post-tax					
Profit After Tax	23,846	24,926	30,044	35,757	40,346
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,846	24,926	30,044	35,757	40,346
Recurring Net Profit	23,846	24,926	30,044	35,757	40,346
Fully Diluted Recurring Net Profit	23,846	24,926	30,044	35,757	40,346

Cash Flow

(Rs mn)	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
EBITDA	34,464	37,463	44,710	51,875	58,537
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,316)	(1,422)	(1,376)	(959)	4,184
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,202	1,010	1,212	1,563	1,629
Net Interest (Paid)/Received	(521)	(862)	(1,193)	(273)	(285)
Tax Paid	(7,389)	(8,655)	(10,396)	(12,563)	(14,176)
Cashflow From Operations	14,439	27,534	32,957	39,642	49,890
Capex	(8,139)	(5,642)	(15,728)	(8,000)	(6,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	6,898	(36)	511		
Other Investing Cashflow					
Cash Flow From Investing	(1,241)	(5,677)	(15,216)	(8,000)	(6,000)
Debt Raised/(repaid)	1,190	41	710		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(19,283)	(20,247)	(23,333)	(29,046)	(32,774)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(18,093)	(20,207)	(22,623)	(29,046)	(32,774)
Total Cash Generated	(4,895)	1,650	(4,882)	2,596	11,116
Free Cashflow To Equity	14,388	21,897	18,451	31,642	43,890
Free Cashflow To Firm	13,719	22,719	18,934	31,916	44,175

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Total Cash And Equivalents	7,987	11,629	11,766	14,362	25,478
Total Debtors	1,660	1,919	2,026	2,258	2,514
Inventories	15,927	19,288	18,733	22,216	24,742
Total Other Current Assets	16,993	17,073	18,369	18,415	18,505
Total Current Assets	42,566	49,909	50,893	57,251	71,241
Fixed Assets	32,409	34,021	45,459	48,615	49,256
Total Investments	7,107	5,602	4,247	4,247	4,247
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	39,516	39,623	49,706	52,862	53,502
Short-term Debt	487	532	645	645	645
Current Portion of Long-Term Debt					
Total Creditors	17,482	19,338	20,018		
Other Current Liabilities	25,972	28,832	27,714	29,257	32,445
Total Current Liabilities	43,941	48,702	48,378	29,902	33,090
Total Long-term Debt	2,178	2,173	2,770	2,770	2,770
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	2,178	2,173	2,770	2,770	2,770
Total Provisions	33,982	33,403	34,363	35,624	39,493
Total Liabilities	80,100	84,278	85,510	68,295	75,353
Shareholders Equity	19,464	24,592	30,928	37,639	45,212
Minority Interests					
Total Equity	19,464	24,592	30,928	37,639	45,212

Key Ratios

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Revenue Growth	10.9%	14.6%	13.2%	11.5%	11.4%
Operating EBITDA Growth	14.7%	8.7%	19.3%	16.0%	12.8%
Operating EBITDA Margin	23.4%	22.2%	23.4%	24.3%	24.7%
Net Cash Per Share (Rs)	5.52	9.26	8.66	11.35	22.88
BVPS (Rs)	20.19	25.50	32.08	39.04	46.89
Gross Interest Cover	58.66	38.77	33.88	172.01	186.52
Effective Tax Rate	23.7%	25.8%	25.7%	26.0%	26.0%
Net Dividend Payout Ratio	80.9%	81.2%	77.7%	81.2%	81.2%
Accounts Receivables Days	4.10	3.87	3.76	3.67	3.67
Inventory Days	86.51	82.93	82.28	80.95	84.33
Accounts Payables Days	93.86	86.71	85.17	39.57	
ROIC (%)	129.8%	138.5%	109.7%	75.6%	85.0%
ROCE (%)	143.9%	138.8%	133.4%	126.8%	120.3%
Return On Average Assets	28.8%	28.9%	31.6%	32.7%	33.2%

Key Drivers

	Dec-21A	Dec-22A	Dec-23A	Dec-24F	Dec-25F
Volume growth %	10.9%	5.2%	8.9%	8.6%	8.2%
Price & mix growth %	N/A	9.4%	4.3%	2.9%	3.1%
Overall sales growth %	10.9%	14.6%	13.2%	11.5%	11.4%
EBITDA margin %	23.4%	22.2%	23.4%	24.3%	24.7%
Prepared dishes growth %	17.1%	15.7%	15.5%	16.0%	14.4%
Milk products & nutrition growth %	1.9%	8.7%	10.0%	4.8%	6.4%
Beverages growth %	14.6%	19.3%	13.0%	13.9%	12.3%
Chocolate & confectionery growth %	21.0%	25.0%	20.0%	18.2%	15.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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