

India

HOLD (no change)

Consensus ratings*: Buy 20 Hold 11 Sell 5

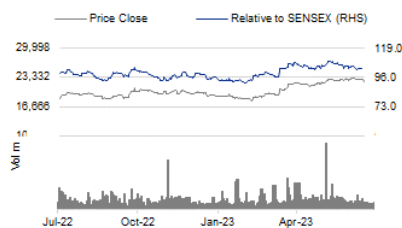
Current price: Rs22,325
 Target price: ▲ Rs22,490
 Previous target: Rs21,570
 Up/downside: 0.7%
 InCred Research / Consensus: 1.5%

Reuters:
 Bloomberg: NEST IN
 Market cap: US\$29,643m
 Rs2,152,510m
 Average daily turnover: US\$19.7m
 Rs1427.8m
 Current shares o/s: 96.4m
 Free float: 37.2%

*Source: Bloomberg

Key changes in this note

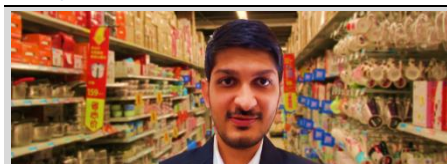
- Target price raised to Rs22,490.
- CY23-25F EPS raised by 1-3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.4)	5.6	20.4
Relative (%)	(4.9)	(2.6)	3.3

Major shareholders	% held
Promoters	62.8
LIC	1.9
Axis AMC	1.6

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Nestle India Ltd

Status quo

- Nestle India's 2QCY23 domestic sales grew 14.9% yoy (4-year CAGR of 11.7% vs. 13.1% in 1Q), 2% below our estimate. Exports grew by 25.4% yoy.
- Gross margin rose by 90bp yoy (up 100bp qoq) to 54.8% owing to moderation in input costs. The EBITDA margin expanded by 260bp yoy to 22%.
- Volume growth sustenance/acceleration remains key as pricing tapers. Lofty valuation limits the upside. Retain HOLD rating with a higher TP of Rs22,490.

Volume growth needs to accelerate to sustain current level of growth

Nestle India reported 2QCY23 revenue growth of 15.3% yoy to Rs46.2bn. Domestic sales grew 14.9% yoy. We estimate volume growth to be in mid-single digits (c.6% on a 4-year CAGR vs. 8% in 1Q). Pricing growth is tapering off from a high of 13-14% in 4QCY22-1QCY23 to c.9-10% in 2Q and will taper off further as commodity prices stabilize. Volume growth needs to accelerate to sustain the current growth level. Export momentum improved with a growth of 25.4% yoy (4-year CAGR of 7.7% vs. 5% in 1Q). All the categories grew in double digits. Milk products & nutrition and beverages growth would be higher driven by pricing. Growth was secular across town classes. Network expansion aided general trade (GT) growth while the e-commerce growth momentum continued and is now at 6.5% of sales. The out-of-home (OOH) business also posted robust growth led by premiumization.

Double-digit growth across segments

Prepared dishes and cooking aids registered double-digit growth led by strong performance of Maggi Noodles, aided by distribution expansion and consumer activations. Strong double-digit growth in milk products was led by Milkmaid and Peptamen brands. The confectionery portfolio posted double-digit growth led by Kitkat and Munch, supported by media campaigns. Beverage portfolio registered double-digit sales growth, led by Nescafe. New launches (NPD) during the quarter include Resource Fibre Choice and Everyday Zero on the nutrition side and Munch Breakfast Cereals.

Commodity outlook improving

The gross margin expanded by 90bp yoy (up 100bp qoq) to 54.8% while the EBITDA margin expanded by 260bp yoy to 22% led by operating leverage as employee cost were up 10% yoy (10.5% of sales, down 51bp yoy) and other expenses were up 10.8% (22.3% of sales, down 93bp yoy). Commodity price outlook is improving as the prices of edible oils, wheat and packaging materials have been trending lower while fresh milk prices are stable.

Maintain HOLD rating with a higher target price of Rs22,490

Volume growth sustenance/acceleration remains key as pricing tapers. Lofty valuation limits the upside. We marginally tweak our estimates and retain our HOLD rating on Nestle India with a higher target price of Rs22,490 (59x Jun 2025F EPS, five-year avg. P/E) from Rs21,570 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	194,014	216,648	241,100
Operating EBITDA (Rsm)	34,464	37,463	44,169	50,803	56,929
Net Profit (Rsm)	23,846	24,926	30,066	34,676	38,837
Core EPS (Rs)	247.3	258.5	311.8	359.6	402.8
Core EPS Growth	14.5%	4.5%	20.6%	15.3%	12.0%
FD Core P/E (x)	90.27	86.36	71.60	62.08	55.43
DPS (Rs)	200.0	220.0	265.4	306.1	342.8
Dividend Yield	0.90%	0.94%	1.19%	1.37%	1.54%
EV/EBITDA (x)	62.30	57.22	48.54	42.09	37.39
P/FCFE (x)	149.62	98.31	85.72	60.68	50.18
Net Gearing	(27.3%)	(36.3%)	(29.1%)	(42.1%)	(60.6%)
P/BV (x)	110.60	87.53	74.05	62.87	53.79
ROE	120.3%	113.2%	112.1%	109.5%	104.6%
% Change In Core EPS Estimates			3.02%	1.35%	1.21%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Status quo

Key highlights from the press release ►

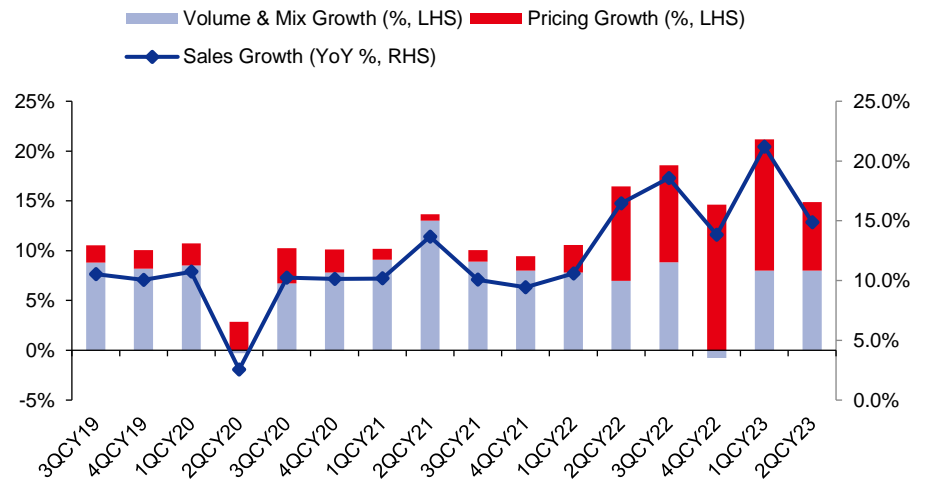
- **Prepared dishes and cooking Aids:** Grew in double digits, led by Maggi noodles as well as distribution-led gains, backed by consumer activation initiatives.
- **Milk products and nutrition:** Grew in strong double digits led by Milkmaid and Peptamen. Relaunch of Resource Fibre Choice and Everyday Zero further aided growth.
- **Confectionery:** Kitkat and Munch brands drove double-digit growth in the segment, supported by media spending and activations.
- **Beverages:** Grew in double digits led by household penetration gains driven by the Nescafe portfolio.
- **Pet food:** Recently launched Felix (cat food) received positive feedback from users and is seeing good traction.
- **Exports:** Grew 25.4%, with growth across categories led by proliferation of products such as Nescafe Sunrise and Polo.
- **Input cost and inflation outlook:** Prices of edible oils, wheat and packaging materials have been trending lower. Prices of fresh milk have been stable, but Robusta coffee prices are elevated and remain volatile.
- **New factory:** Nestle India received in-principle approval for setting up its 10th factory in India, at Odisha.

Figure 1: Quarterly results summary - standalone

Y/E Dec (Rs. m)	2QCY22	1QCY23	2QCY23	YoY (%)	QoQ (%)	1HCY22	1HCY23	Gr (%)
Revenue	40,366	48,305	46,585	15.4	-3.6	80,383	94,891	18.0
Expenditure	32,539	37,721	36,358	11.7	-3.6	63,753	74,079	16.2
Consumption of raw materials	18,583	22,315	21,050	13.3	-5.7	36,507	43,366	18.8
as % of sales	46.0	46.2	45.2			45.4	45.7	
Employee costs	4,453	4,913	4,900	10.0	-0.3	8,811	9,813	11.4
as % of sales	11.0	10.2	10.5			11.0	10.3	
Other expenditure	9,366	10,461	10,374	10.8	-0.8	18,238	20,835	14.2
as % of sales	23.2	21.7	22.3			22.7	22.0	
Provision for contingency	137	32	33	-75.7	4.4	198	65	-67.2
as % of sales	0.3	0.1	0.1			0.2	0.1	
EBITDA	7,826	10,585	10,227	30.7	-3.4	16,630	20,812	25.1
Depreciation	1,016	1,017	1,074	5.7	5.6	2,062	2,091	1.4
EBIT	6,811	9,568	9,154	34.4	-4.3	14,568	18,722	28.5
Other income	194	337	240	23.6	-28.9	408	576	41.2
Interest	0	0	0	NA	NA	0	0	NA
PBT	7,005	9,905	9,393	34.1	-5.2	14,976	19,298	28.9
Total tax	1,850	2,538	2,410	30.3	-5.1	3,965	4,948	24.8
Adjusted PAT	5,154	7,366	6,983	35.5	-5.2	11,011	14,350	30.3
Extraordinary items	0	0	0	NA	NA	0	0	NA
Reported PAT	5,154	7,366	6,983	35.5	-5.2	11,011	14,350	30.3
Adjusted EPS	53.5	76.4	72.4	35.5	-5.2	114.2	148.8	30.3
Margins (%)	2QCY22	1QCY23	2QCY23	YoY (bp)	QoQ (bp)	1HCY22	1HCY23	(bp)
Gross margin	54.0	53.8	54.8	90	100	54.6	54.3	-30
EBITDA	19.4	21.9	22.0	260	0	20.7	21.9	120
EBIT	16.9	19.8	19.6	280	-20	18.1	19.7	160
EBT	17.4	20.5	20.2	280	-30	18.6	20.3	170
PAT	12.8	15.2	15.0	220	-30	13.7	15.1	140
Effective tax rate	26.4	25.6	25.7	-80	0	26.5	25.6	-80

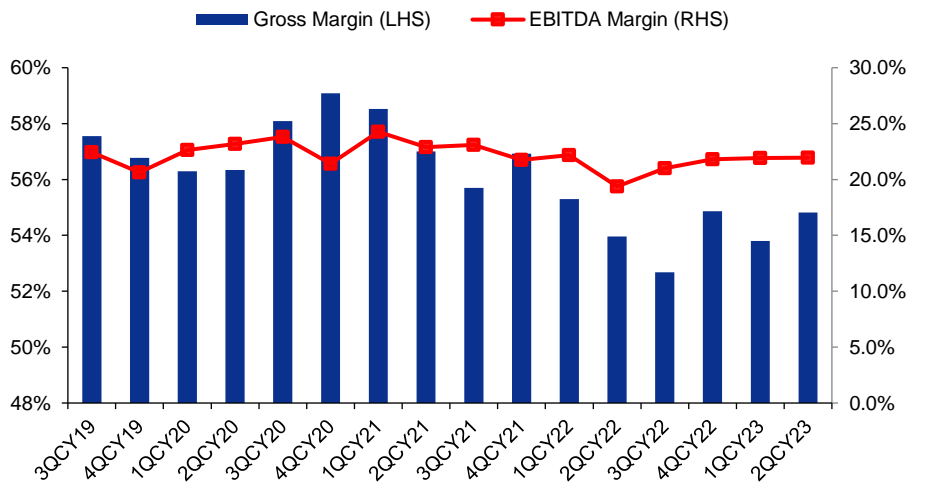
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Gross/EBITDA margin expanded by 90/260bp yoy to 54.8%/22%, respectively, in 2QCY23



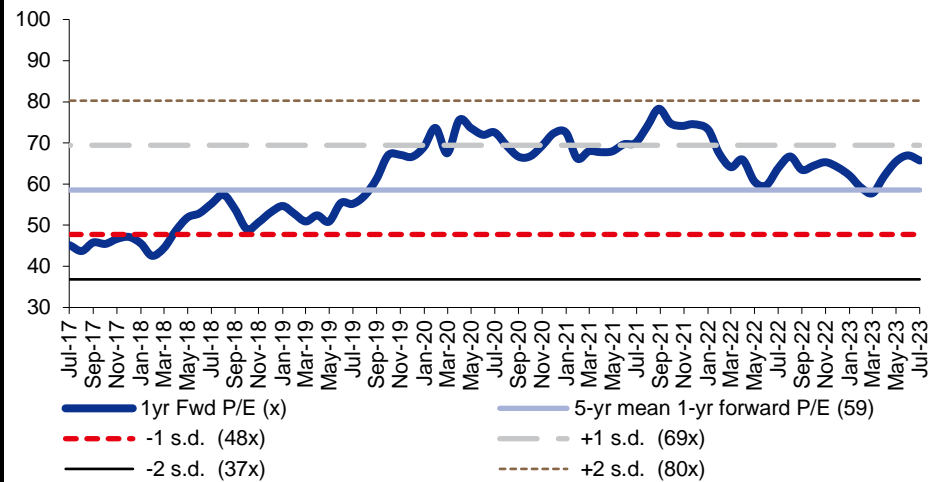
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Our revised earnings estimates

Y/E Dec (Rs. m)	CY23F			CY24F			CY25F		
	Previous	Revised	% Change	Previous	Revised	% Change	Previous	Revised	% Change
Net revenue	1,93,322	1,94,014	0.4	2,17,442	2,16,648	(0.4)	2,41,941	2,41,100	(0.3)
EBITDA	42,979	44,169	2.8	50,100	50,803	1.4	56,147	56,929	1.4
EBITDA margin (%)	22.2	22.8	60 bp	23.0	23.4	40 bp	23.2	23.6	40 bp
Net profit	29,185	30,066	3.0	34,213	34,676	1.4	38,374	38,837	1.2
EPS	302.7	311.8	3.0	354.8	359.6	1.4	398.0	402.8	1.2

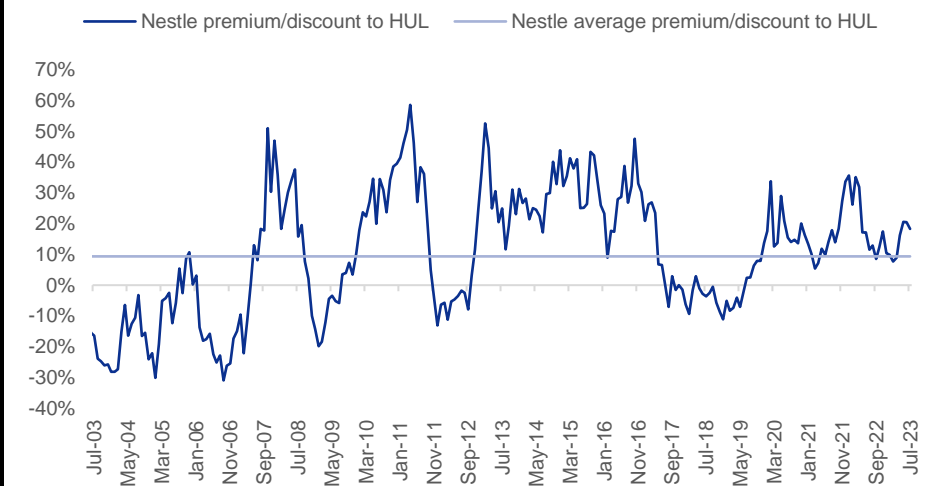
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Nestle India's one-year forward P/E trades close to +1SD



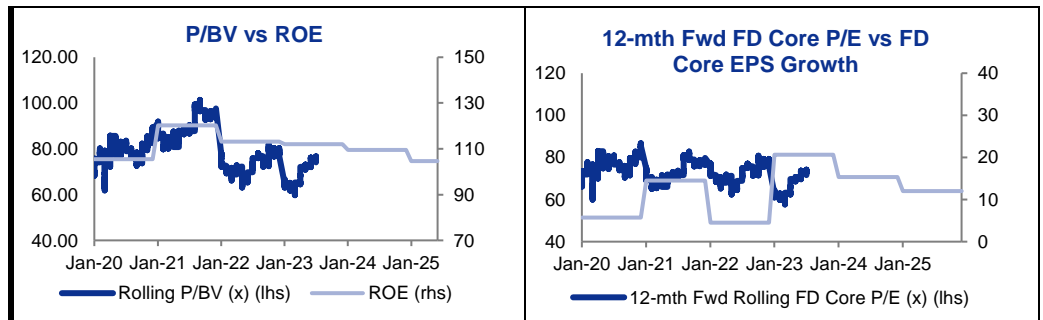
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Nestle India trades at an 18% 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	194,014	216,648	241,100
Gross Profit	83,924	91,471	106,901	122,840	137,909
Operating EBITDA	34,464	37,463	44,169	50,803	56,929
Depreciation And Amortisation	(3,910)	(4,030)	(4,509)	(5,056)	(5,602)
Operating EBIT	30,554	33,433	39,660	45,747	51,327
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	40,629	46,859	52,482
Exceptional Items					
Pre-tax Profit	31,235	33,580	40,629	46,859	52,482
Taxation	(7,389)	(8,655)	(10,564)	(12,183)	(13,645)
Exceptional Income - post-tax					
Profit After Tax	23,846	24,926	30,066	34,676	38,837
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	23,846	24,926	30,066	34,676	38,837
Recurring Net Profit	23,846	24,926	30,066	34,676	38,837
Fully Diluted Recurring Net Profit	23,846	24,926	30,066	34,676	38,837

Cash Flow

(Rs mn)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
EBITDA	34,464	37,463	44,169	50,803	56,929
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(13,316)	(1,422)	(3,463)	3,741	4,459
(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)	(10,564)	(12,183)	(13,645)
Cashflow From Operations	14,439	27,534	31,112	43,472	48,898
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)	(25,587)	(29,510)	(33,051)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(18,093)	(20,207)	(25,587)	(29,510)	(33,051)
Total Cash Generated	(4,895)	1,650	(475)	5,962	9,847
Free Cashflow To Equity	14,388	21,897	25,112	35,472	42,898
Free Cashflow To Firm	13,719	22,719	25,320	35,689	43,124

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	11,154	17,117	26,963
Total Debtors	1,660	1,919	2,055	2,294	2,553
Inventories	15,927	19,288	20,217	22,575	25,123
Total Other Current Assets	16,993	17,073	17,135	17,220	17,311
Total Current Assets	42,566	49,909	50,561	59,206	71,951
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	27,174	30,076	33,399
Total Current Liabilities	43,941	48,702	27,706	30,608	33,931
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	32,724	36,246	40,280
Total Liabilities	80,100	84,278	62,604	69,027	76,384
Shareholders Equity	19,464	24,592	29,071	34,236	40,022
Minority Interests					
Total Equity	19,464	24,592	29,071	34,236	40,022

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Revenue Growth	10.9%	14.6%	14.8%	11.7%	11.3%
Operating EBITDA Growth	14.7%	8.7%	17.9%	15.0%	12.1%
Operating EBITDA Margin	23.4%	22.2%	22.8%	23.4%	23.6%
Net Cash Per Share (Rs)	55.20	92.55	87.63	149.47	251.59
BVPS (Rs)	201.86	255.05	301.50	355.08	415.08
Gross Interest Cover	58.66	38.77	190.00	210.65	227.08
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	3.74	3.66	3.67
Inventory Days	86.51	82.93	82.76	83.25	84.36
Accounts Payables Days	93.86	86.71	40.51		
ROIC (%)	129.8%	138.5%	83.1%	90.6%	101.8%
ROCE (%)	143.9%	138.8%	137.7%	136.4%	131.7%
Return On Average Assets	28.8%	28.9%	32.1%	34.4%	34.3%

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 %	N/A	9.4%	6.0%	3.1%	3.1%
Overall sales growth %	10.9%	14.6%	14.8%	11.7%	11.3%
EBITDA margin %	23.4%	22.2%	22.8%	23.4%	23.6%
Prepared dishes growth %	17.1%	15.7%	18.8%	16.0%	14.4%
Milk products & nutrition growth %	1.9%	8.7%	10.6%	4.5%	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%
Prepared dishes growth %	N/A	N/A	N/A	N/A	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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