

## Equity Research Report

## Nestle India Ltd

Robust Performance Across All Categories, Retain BUY!

## About The Company

Nestle India Limited is the Indian subsidiary of Nestle which is a Swiss multinational company. The company is headquartered in Gurgaon, Haryana. The company's products include food, beverages, chocolate, and confectioneries. The company was incorporated on 28 March 1959. As of 2023, the parent company Nestle owns 62.76% of Nestle India.

The company has 9 production facilities in various locations across India. The Co. has an established market position in most product categories it has a presence in. The company is a pioneer in the culinary segment, with a range of products under the Maggi brand. The company is among the top two players in most of its product categories: milk products and nutrition, beverages, prepared dishes and cooking aids, and chocolate and confectionery.

Nestle India manufactures products of truly international quality under internationally famous brand names such as NESCAFE, MAGGI, MILKYBAR, KIT KAT, CERELAC, MILKMAID, GERBER, MILO and NESTEA and in recent years the Company has also introduced products in health and pet care segment.

## Q1CY23 Results Synopsis

Nestle delivered resilient all-round performance, driven by strong double-digit growth across all categories, with a healthy balance of the product mix, pricing and volume growth.

Domestic revenue grew 21% year-on-year (YoY) while Exports grew 25% YoY led by the continued expansion in new markets and channels. Furthermore, the management reiterated its RURBAN strategy is fueling overall rural growth. Gross margins declined 150bps YoY to 54% owing to higher raw material inflation, mainly in dairy.

For the quarter ended March (Q1CY23), the company's revenue from operations surged 21% YoY to ₹48,642 crore from ₹40,021 crore in March 2022. In the March quarter, the company's total expenses increased by about 21% to ₹38,738 crore, from ₹31,959 crore in the same quarter of the prior fiscal year.

Earnings before interest, taxes, depreciation, and amortization (EBITDA) grew by 19% YoY to ₹11,292 crore in the first quarter of CY2023.

Nestle India's Out-of-Home business continued to accelerate rapidly this quarter. We continued with portfolio transformation, continued expansion, route to market focused on relevant geographies, channel prioritization and opening of new kiosks in key locations. Its strong performance in e-Commerce continued with significant growth in quick commerce.

Nestle India is seeing early signs of softening in edible oils, wheat, and packing materials; however, the company expects dairy, fuel and green coffee are likely to remain firm on account of high demand and volatility in prices.



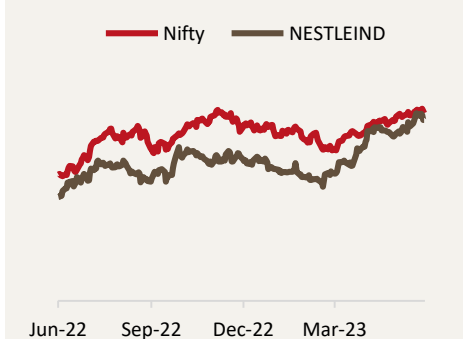
Nestle Good food, Good life

Reco	: BUY
CMP	: Rs 22,894
Target Price	: Rs 23,577
Potential Target	: +2.9%

## Stock data (as on June 30, 2023)

Nifty	19,189
52 Week H/L (in Rs.)	23,175 / 17,331
Market Cap (in Rs./USD Mn)	2,206,982 / 26,904
Outstanding Shares (Mn)	96.4
Dividend Yield (%)	0.97%
NSE Code	NESTLEIND

## Stock Performance (1 Year)



	1M	3M	1Y
Absolute Return	4.63%	27.32%	135.82%

## Shareholding Pattern (March 31, 2023)

Promoter	62.8%
FII	12.1%
DII	9.2%
Public	16.0%

## Financial Summary (In Mn)

	CY22	CY23E	CY24E
Net Revenue	168,970	189,246	210,063
YoY Growth (%)	14.63%	12.00%	11.00%
EBITDA	37,126	38,795	42,013
EBITDA Margins	21.97%	20.50%	20.00%
PAT	23,905	29,522	32,770
YoY Growth (%)	14.15%	15.60%	15.60%
ROE	97.21%	89.73%	73.70%
EPS	247.94	306.20	339.88
P/E	79.08x	77.00x	68.28x
P/BV	76.87x	69.09x	50.33x

Prepared By: Gaurang Shakreja

Guided By: Parth Verma (The Valuation School)



# Nestle India Ltd

## Exhibit 1: Quarterly Snapshot :

Particulars (Rs. Mn)	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	%YoY
Revenue	36,405	35,062	39,162	37,667	40,021	40,559	46,216	42,863	48,642	21.5%
COGS	14,976	14,948	17,198	16,067	17,757	18,583	21,679	19,215	22,315	25.7%
Gross Profit	21,428	20,114	21,964	21,600	22,264	21,976	24,537	23,649	26,327	18.2%
Gross Margin (%)	58.9%	57.4%	56.1%	57.3%	55.6%	54.2%	53.1%	55.2%	54.1%	150bps
Employee Cost	3,681	3,783	3,883	3,866	3,966	4,084	4,179	4,070	4,543	14.5%
Depreciation	936	953	955	1,058	1,043	1,016	981	987	1,017	-2.5%
Other Ope Exp	8,153	7,556	8,265	8,803	8,837	9,504	9,945	9,554	10,493	18.7%
Operating Income	8,659	7,822	8,861	7,873	8,418	7,373	9,432	9,039	10,275	22.1%
OPM (%)	23.8%	22.3%	22.6%	20.9%	21.0%	18.2%	20.4%	21.1%	21.1%	10bps
Interest	540	517	519	436	356	370	370	448	370	4.0%
Exceptional	-	-	-	2,365	-	-	-	-	-	0.0%
PBT	8,119	7,305	8,342	5,072	8,062	7,004	9,062	8,591	9,905	22.8%
Tax	2,096	1,919	2,169	1,205	2,115	1,850	2,379	2,310	2,538	20.0%
PAT	6,023	5,386	6,174	3,867	5,947	5,153	6,683	6,281	7,366	23.9%

Source: Company Reports, The Valuation School

## Exhibit 2: Supplemental Metrics :

Particulars (Rs. Mn)	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Trend
Revenue Growth %	5.1%	-3.7%	11.7%	-3.8%	6.3%	1.3%	13.9%	-7.3%	13.5%	
EBITDA	9,595	8,775	9,817	8,930	9,461	8,389	10,413	10,026	11,292	
EBIT	8,659	7,822	8,861	7,873	8,418	7,373	9,432	9,039	10,275	
PAT Margin	16.5%	15.4%	15.8%	10.3%	14.9%	12.7%	14.5%	14.7%	15.1%	
Basic EPS	62.5	55.9	64.0	40.1	61.7	53.5	69.3	65.1	76.4	
Dividend per share	25.0	-	110.0	65.0	25.0	-	120.0	75.0	27.0	
Dividend Payout %	40.0%	0.0%	171.8%	162.1%	40.5%	0.0%	173.1%	115.1%	35.3%	
Effective Tax Rate %	25.8%	26.3%	26.0%	23.8%	26.2%	26.4%	26.3%	26.9%	25.6%	

Source: Company Reports, The Valuation School

## Exhibit 3: Key Ratio Movement :

Particulars (Rs. Mn)	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22	Q3CY22	Q4CY22	Q1CY23	Trend
EV/Revenue	44.99x	48.13x	47.55x	50.32x	41.76x	41.39x	39.81x	43.95x	38.92x	
EV/EBITDA	170.69x	192.32x	189.71x	212.25x	176.65x	200.14x	176.68x	187.90x	167.68x	
EV/EBIT	189.15x	215.75x	210.16x	240.76x	198.53x	227.71x	195.06x	208.41x	184.27x	
P/E	274.81x	315.68x	303.69x	491.38x	281.78x	326.86x	276.20x	300.99x	257.92x	
P/BV	81.96x	75.98x	83.79x	91.15x	62.55x	72.35x	61.54x	76.87x	60.42x	
P/Tangible BV	63.50x	70.35x	77.58x	65.53x	57.80x	58.09x	63.66x	61.69x	62.01x	

Source: Company Reports, The Valuation School



# Nestle India Ltd

## Con-Call Q4CY22 – Key Highlights

### Capex:

- 26 billion capex has been planned in the last two years, but it will be exceeded in coming years.
- 5 billion spent in 2022 and will see a big amount of capex in the next two years on foods and chocolates.
- Global Nestle CEO has also planned to invest 50 billion in India in upcoming years. Out of total capex, 13 billion will be spent in 2023 and 20 billion will be spent in 2024.

### RURBAN Strategy:

- Nestle India is currently focusing on geography, infrastructure and sales organization.
- In each portfolio, Nestle has starter packs, price point mid-sized packs and larger packs.
- The company has scaled up HAAT activity (village fairs) and improved in-shop visibility (RURBAN smart stores) – from 3500 to 16000. It is working towards affordable packs for its nutrition portfolio.
- Nestle India's Project Swabhiman has empowered rural women through self-help groups and scaled up to 19 states in 2022 with over 600 entrepreneurs.

### New Products:

- The company has currently 30 new products in the pipeline across categories, including millet, nutrition, confectionery, MAGGI, and coffee. Nestle has launched 110 products in the last 7 years and its strategy is to secure the growth platform and keep adding on an incremental basis. Which has led to 5.4% in 2022 from 1.5% in 2016.
- The company is also researching millet processing and its other products with Nestle SA and Nutrihub (ICAR – Institute of Millet Research).
- Nestle Health Science arm has launched Thicken Up Clear, a food and beverage thickener that can be used for patients with swallowing difficulties.

### Segment Wise Performance:

- Milk and Nutrition segment has shown strong double-digit growth, despite commodity pressures. GERBER Cereals and CEREGROW Grain Selection performed well. This segment consists of 40% of total revenue while in terms of volume growth, it has been around 2-3% in the past year. The company has not provided a split between Milk and Nutrition. It has shown 8.73% growth compared to past years while quantity growth has declined slightly.
- Prepared Dishes and Cooking Aids have also delivered strong growth. It derives 31% of total revenue.
- Confectionery segment has gained market share and delivered robust growth driven by KitKat and MUNCH. It has shown 12.14% growth in quantity and 25.02% in revenue compared to the past year.
- In the Beverages segment NESCAFE recorded its highest-ever market share. NESCAFE RTD and out-of-home also delivered strong growth. It has shown 19.33% growth in terms of revenue and 14.33% in quantity.
- Pet Food has also continued to build on its momentum and launched new products within its cat portfolio.

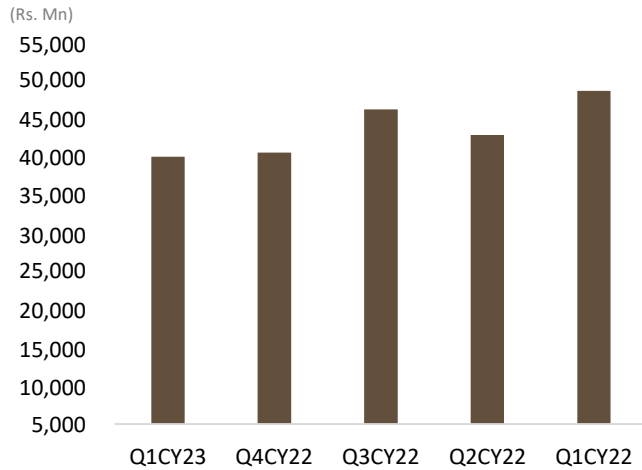
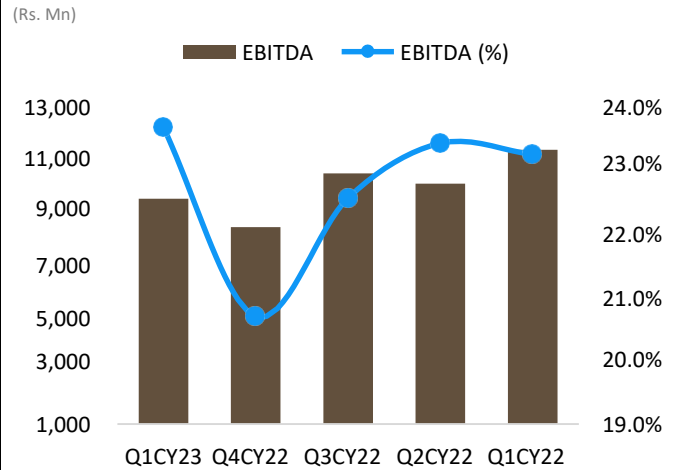
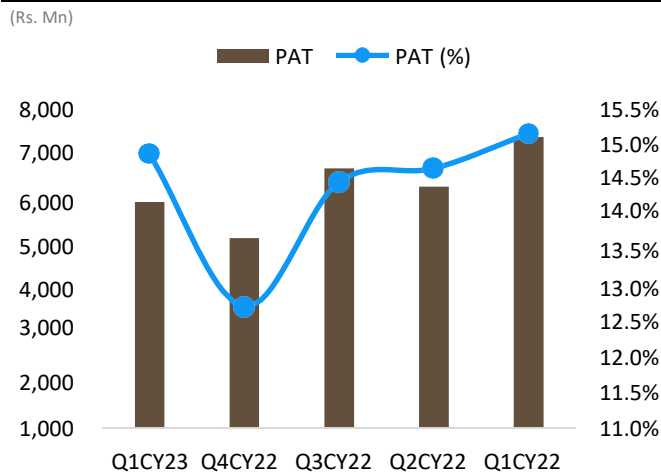
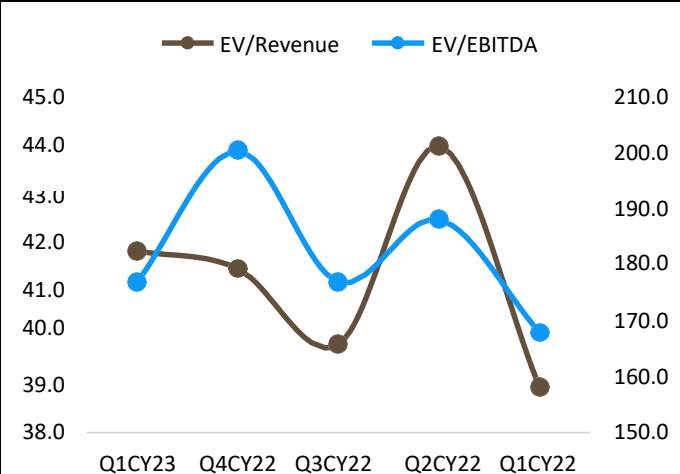
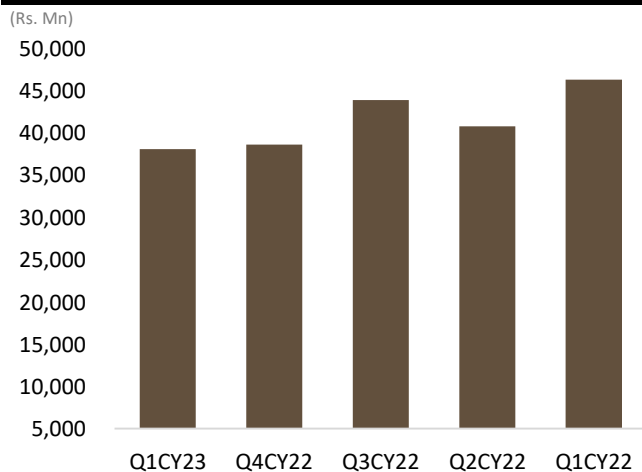
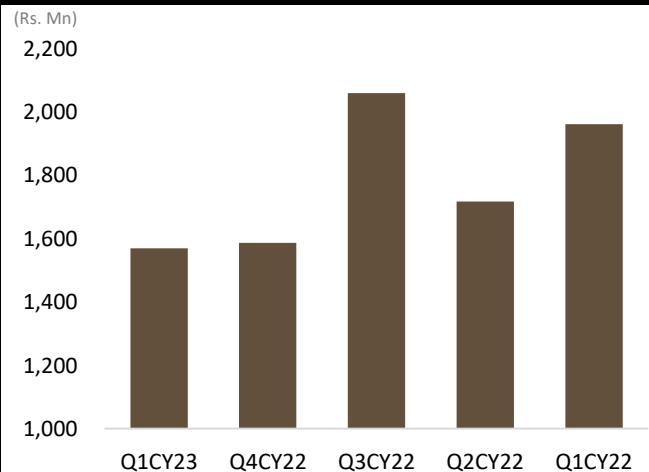
### Others:

- Distribution is key to the company's success, and they have reached 5.1 million people through direct reach. Earlier company has 10000 distribution touchpoints which have currently become 14000.
- E-commerce business has also grown 10 times in the last 6 years from 0.6% to 6.5%.
- The company has also launched its Direct to Consumer (D2C) platform MyNestle which currently has a presence in Delhi-NCR.
- The reported sales growth for the full year was 14.5%. Net profit on a reported basis had an improvement of 12.8%.
- Export sales increased by 8.2 % for the full year. Strong double-digit growth of product portfolio in global markets through both mainstream and ethnic channels.



# Nestle India Ltd

## Quarterly Trends

**Exhibit 4 – Revenue grew up 22% YoY**

**Exhibit 5 – EBITDA grew 19% & Margins -180bps YoY**

**Exhibit 6 – PAT grew 24% and Margin 190bps YoY**

**Exhibit 7 – EV/Revenue decline 7% & EBITDA 5%**

**Exhibit 8 – Domestic Revenue grew up 21% YoY**

**Exhibit 9 – Export Revenue grew up 25% YoY**




# Nestle India Ltd

## Exhibit 10: Yearly Snapshot :

Particulars (Rs. Mn)	CY2013	CY2014	CY2015	CY2016	CY2017	CY2018	CY2019	CY2020	CY2021	CY2022
Revenue	91,011	98,548	81,753	94,746	101,922	112,923	123,689	133,500	147,406	168,970
COGS	41,224	45,240	34,689	38,828	43,269	45,902	52,239	56,739	63,482	77,499
Gross Profit	49,787	53,309	47,064	55,918	58,653	67,020	71,450	76,761	83,924	91,471
Gross Margin (%)	54.7%	54.1%	57.6%	59.0%	57.5%	59.4%	57.8%	57.5%	56.9%	54.1%
Employee Cost	6,857	7,722	8,374	9,016	10,175	11,242	12,582	15,010	15,299	16,355
Depreciation	3,300	3,375	3,473	3,537	3,423	3,357	3,702	3,704	3,910	4,030
Other Ope Exp	23,454	25,269	23,140	28,404	27,513	29,602	29,609	29,737	32,961	37,991
Operating Income	16,176	16,943	12,077	14,962	17,543	22,820	25,557	28,311	31,754	33,095
OPM (%)	17.8%	17.2%	14.8%	15.8%	17.2%	20.2%	20.7%	21.2%	21.5%	19.6%
Interest	365	142	33	909	919	1,120	1,291	1,642	2,017	1,546
Other Income	831	873	1,101	1,509	1,769	2,589	2,469	1,459	1,202	1,010
Exceptional	-138	-70	5,008	108	0	0	0	0	2,365	0
PBT	16,780	17,744	8,136	15,454	18,393	24,290	26,735	28,128	28,573	32,560
Tax	5,609	5,897	2,504	5,440	6,141	8,220	7,051	7,304	7,389	8,655
PAT	11,171	11,847	5,633	10,014	12,252	16,069	19,684	20,824	21,184	23,905

Source: Company Reports, The Valuation School

## Exhibit 11: Supplemental Metrics :

Particulars (Rs. Mn)	CY2013	CY2014	CY2015	CY2016	CY2017	CY2018	CY2019	CY2020	CY2021	CY2022
Revenue Growth %	9.2%	8.3%	-17.0%	15.9%	7.6%	10.8%	9.5%	7.9%	10.4%	14.6%
EBITDA	19,476	20,318	15,549	18,498	20,965	26,177	29,259	32,015	35,664	37,126
EBIT	16,176	16,943	12,077	14,962	17,543	22,820	25,557	28,311	31,754	33,095
PAT Margin	12.3%	12.0%	6.9%	10.6%	12.0%	14.2%	15.9%	15.6%	14.4%	14.1%
Basic EPS	115.9	122.9	58.4	103.9	127.1	166.7	204.2	216.0	219.7	247.9
Dividend per share	25.0	-	110.0	65.0	25.0	-	120.0	75.0	27.0	4,030
Dividend Payout %	16.6%	17.1%	24.1%	23.2%	23.5%	24.5%	24.1%	26.5%	24.1%	37,991
Effective Tax Rate %	33.4%	33.2%	30.8%	35.2%	33.4%	33.8%	26.4%	26.0%	25.9%	26.6%

Source: Company Reports, The Valuation School

## Exhibit 12: Key Ratio Movement :

Particulars (Rs. Mn)	CY2013	CY2014	CY2015	CY2016	CY2017	CY2018	CY2019	CY2020	CY2021	CY2022
EV/Revenue	05.7x	06.2x	06.8x	06.0x	07.3x	09.3x	11.4x	13.2x	12.9x	11.1x
EV/EBITDA	26.4x	30.1x	35.8x	31.0x	35.5x	40.3x	48.3x	54.9x	53.1x	50.7x
EV/EBIT	31.8x	36.1x	46.1x	38.3x	42.5x	46.2x	55.3x	62.1x	59.7x	56.9x
P/E	45.6x	52.0x	99.8x	58.0x	61.9x	66.5x	72.4x	85.1x	89.7x	79.1x
P/BV	21.5x	21.7x	18.5x	17.7x	22.2x	29.2x	74.3x	87.8x	97.6x	76.9x
P/Tangible BV	15.1x	19.4x	19.4x	21.3x	29.0x	42.3x	60.9x	81.4x	63.4x	62.1x

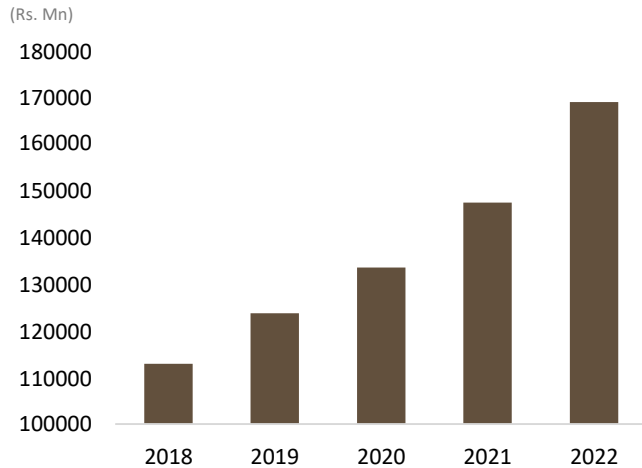
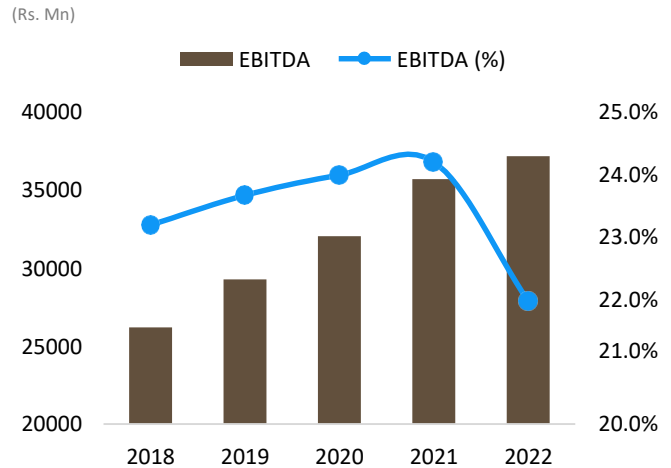
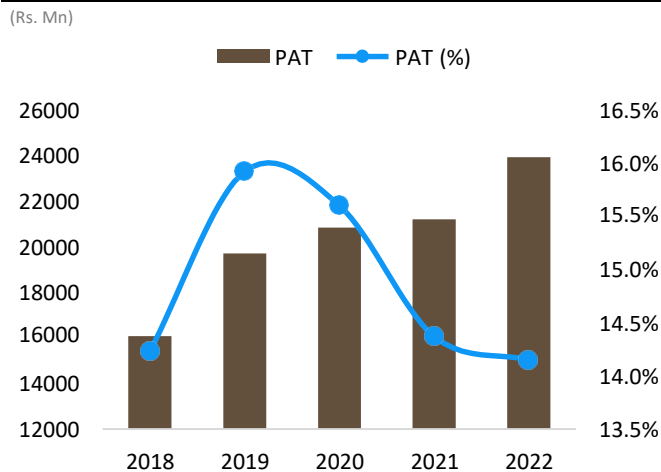
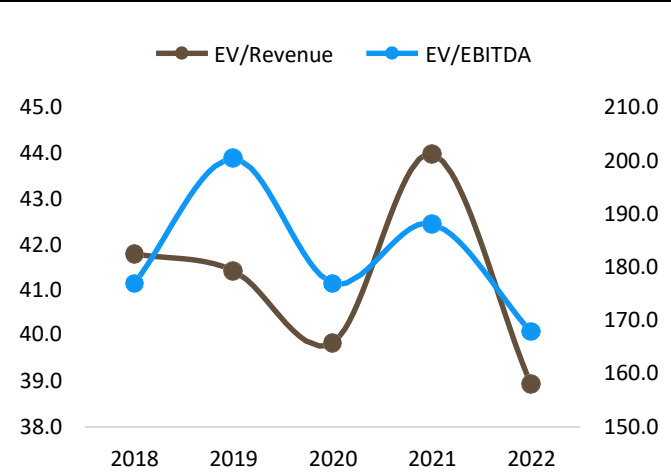
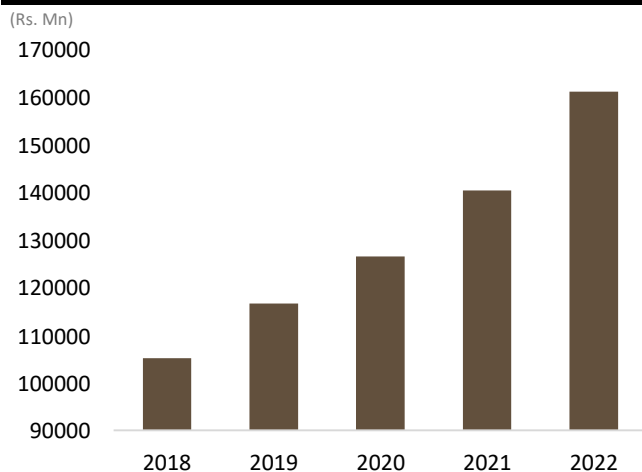
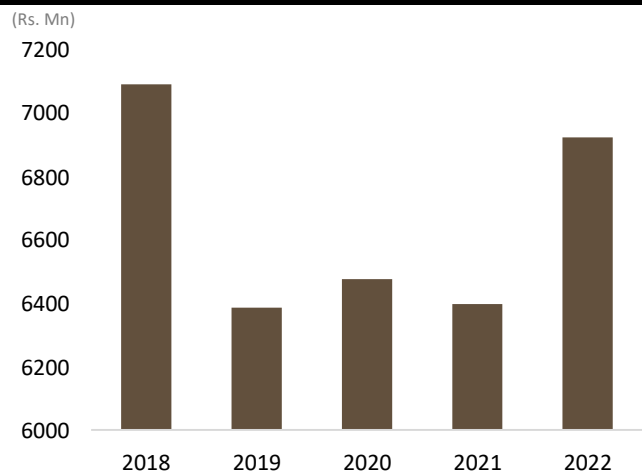
Source: Company Reports, The Valuation School



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## Yearly Trends

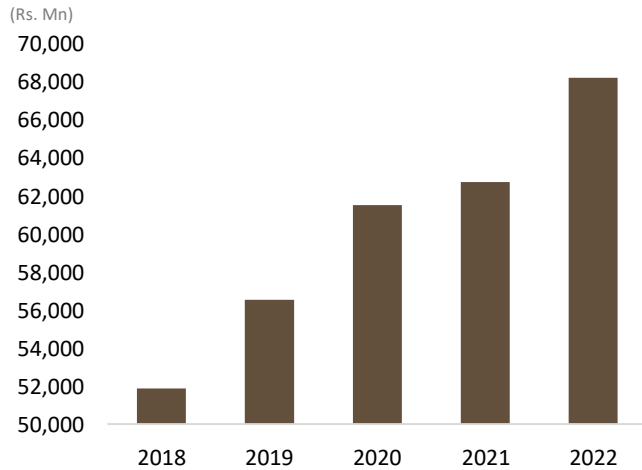
**Exhibit 13 – Revenue grew up 50% YoY**

**Exhibit 14 – EBITDA grew 41% & Margins -120bps YoY**

**Exhibit 15 – PAT grew 49% and Margin 10bps YoY**

**Exhibit 16 – EV/Revenue decline 7% & EBITDA 5%**

**Exhibit 17 – Domestic Revenue grew up 53% YoY**

**Exhibit 18 – Export Revenue decline 2% YoY**




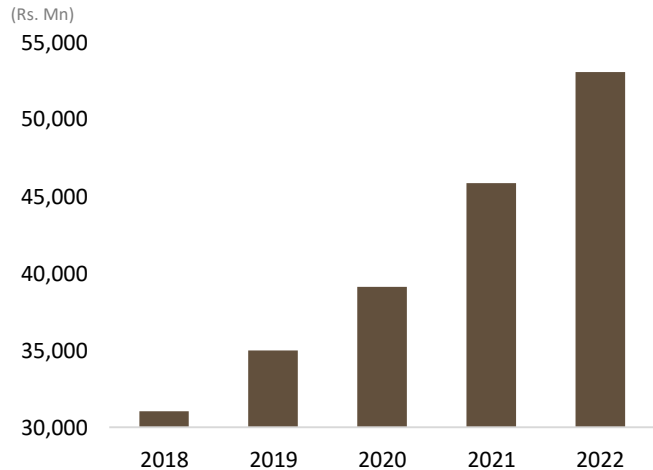
# Nestle India Ltd

## Segment Trends

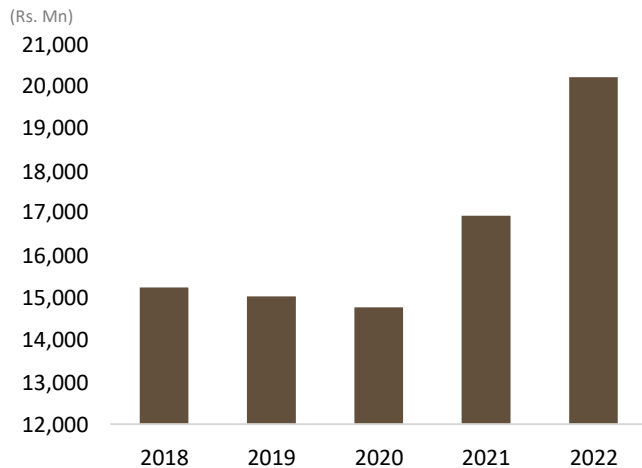
**Exhibit 19 – Milk & Nutrition grew up 31% YoY**



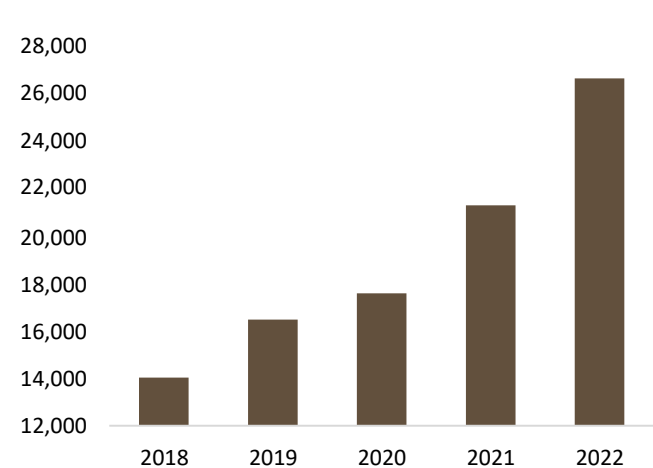
**Exhibit 20 – Prepared Dishes grew up 71% YoY**



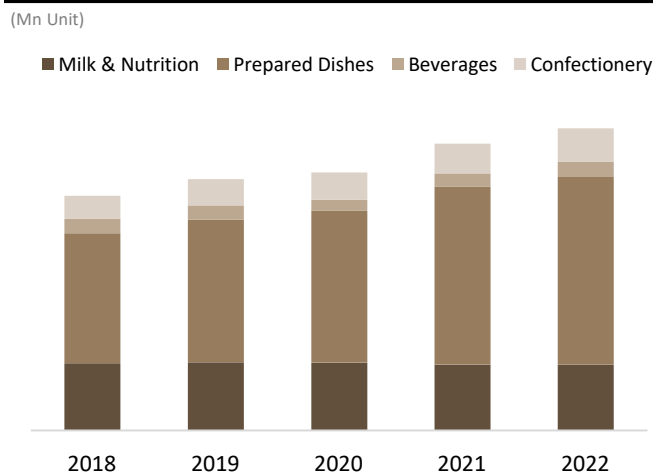
**Exhibit 21 – Beverages grew up 33% YoY**



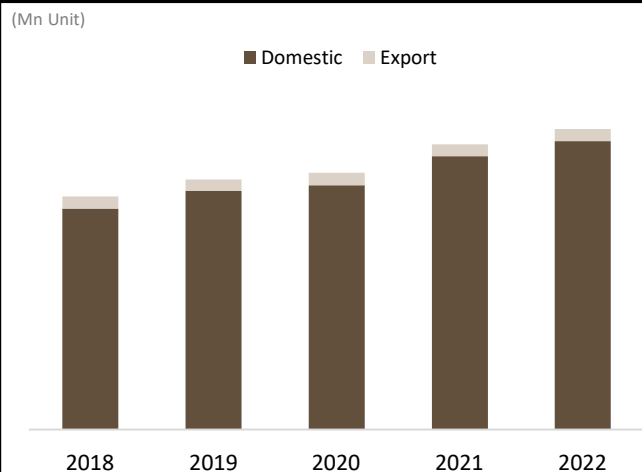
**Exhibit 22 – Confectionery grew up 89% YoY**



**Exhibit 23 – Segment Quantity grew up 28% YoY**



**Exhibit 24 – Region Wise Quantity Performance**





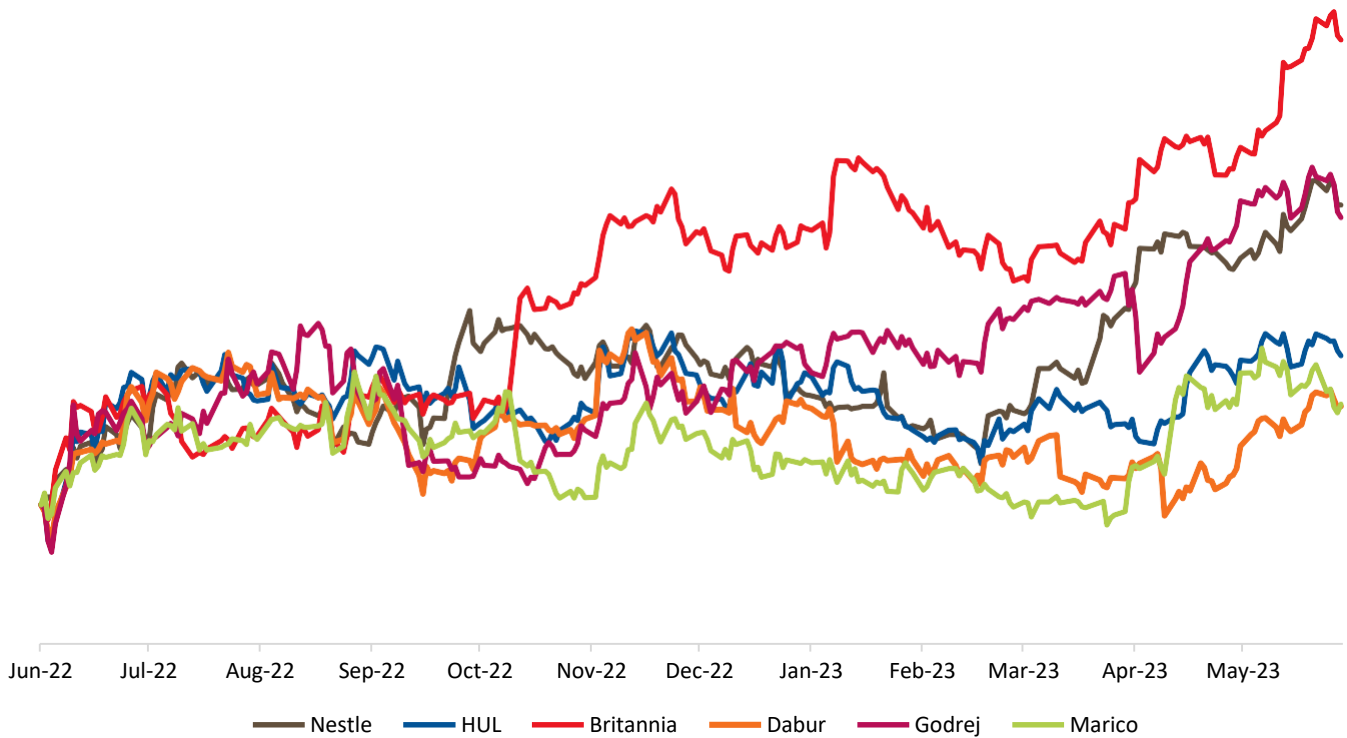
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## Peer Comparison

### Exhibit 25: Peer Stock Performance

#### Peer Stock Performance (1Y) - Indexed



Source: Yahoo Finance

### Exhibit 26: Peers Financial Performance :

Peers	CMP	Mkt cap	PEG Ratio	P/E Ratio	Debt	Int. Coverage	EBITDA (%)	ROCE (%)	ROE (%)	CFO/EBITDA
Nestle India	22,537	217,291	6.0	85.5	271	23.1	23.0%	137.8%	108.3%	0.6
Hindustan Unilever	2,642	620,668	4.3	61.0	1,219	118.6	24.0%	26.6%	20.5%	0.7
Britannia Industries	4,971	119,731	3.9	59.0	2,997	16.7	19.0%	48.9%	66.6%	0.5
Dabur India	563	99,828	13.0	58.7	1,174	29.4	23.0%	23.5%	19.6%	0.7
Godrej Consumer	1,036	105,947	17.5	60.7	1,130	13.4	20.0%	16.8%	13.8%	0.6
Marico	529	68,344	5.3	52.5	608	32.1	20.0%	43.7%	36.4%	0.6

Source: Screener.in





# Nestle India Ltd

## Analyst Coverage Universe

### Exhibit 27: Research House Ratings

#	Date	Research House	Rating	Price at Reco	Target
1	16-Jun-23	ICICI Securities Limited	Accumulate	22,969	24,500
2	02-May-23	Geojit BNP Paribas	Hold	21,746	23,380
3	26-Apr-23	KRChoksey	Accumulate	20,665	23,000
4	26-Apr-23	Axis Direct	Buy	21,026	23,000
5	25-Apr-23	BOB Capital Markets Ltd.	Buy	20,665	24,670
6	25-Apr-23	Sharekhan	Buy	21,026	22,990
7	25-Apr-23	ICICI Direct	Hold	20,665	22,000
8	25-Apr-23	ICICI Securities Limited	Accumulate	20,665	23,000
9	25-Apr-23	Prabhudas Lilladhar	Accumulate	20,665	22,600
10	25-Apr-23	Motilal Oswal	Neutral	20,665	20,500
11	10-Apr-23	Axis Direct	Buy	19,530	21,700
12	31-Mar-23	BOB Capital Markets Ltd.	Buy	19,705	22,860
13	29-Mar-23	KRChoksey	Accumulate	18,946	21,805
14	28-Mar-23	Motilal Oswal	Neutral	18,946	19,900
15	20-Feb-23	KRChoksey	Accumulate	19,021	21,805
16	17-Feb-23	HDFC Securities	Sell	19,021	18,500
17	17-Feb-23	ICICI Securities Limited	Accumulate	19,021	22,000
18	17-Feb-23	Axis Direct	Buy	19,021	22,000
19	17-Feb-23	ICICI Direct	Hold	19,021	22,000
20	16-Feb-23	Motilal Oswal	Neutral	19,629	19,875

Source: Trendlyne

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