

October 25, 2023

## Analyst Meet Update

■ Change in Estimates | ■ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	CY24E	CY25E	CY24E	CY25E
<b>Rating</b>	<b>ACCUMULATE</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>25,471</b>		<b>25,471</b>	
Sales (Rs. m)	2,21,611	2,48,035	2,21,611	2,48,035
% Chng.	-	-	-	-
EBITDA (Rs. m)	52,307	59,476	52,307	59,476
% Chng.	-	-	-	-
EPS (Rs.)	348.8	395.7	348.8	395.7
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Dec	CY22	CY23E	CY24E	CY25E
Sales (Rs. bn)	169	195	222	248
EBITDA (Rs. bn)	38	46	52	59
Margin (%)	22.2	23.6	23.6	24.0
PAT (Rs. bn)	24	30	34	38
EPS (Rs.)	252.7	314.3	348.8	395.7
Gr. (%)	4.5	24.4	11.0	13.5
DPS (Rs.)	210.0	242.0	210.0	240.0
Yield (%)	0.9	1.0	0.9	1.0
RoE (%)	110.6	110.1	91.9	76.8
RoCE (%)	150.1	150.0	127.8	106.8
EV/Sales (x)	13.8	11.9	10.5	9.4
EV/EBITDA (x)	61.9	50.6	44.7	39.2
PE (x)	96.0	77.1	69.5	61.3
P/BV (x)	95.1	76.8	54.7	41.3

### Key Data

**NEST.BO | NEST IN**

52-W High / Low	Rs.24,745 / Rs.17,880
Sensex / Nifty	64,049 / 19,122
Market Cap	Rs.2,338bn / \$ 28,100m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1564.57m

### Shareholding Pattern (%)

Promoter's	62.76
Foreign	12.10
Domestic Institution	9.32
Public & Others	15.82
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	7.1	17.3	19.5
Relative	10.4	10.0	11.7

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# Nestle India (NEST IN)

**Rating: ACCUMULATE | CMP: Rs24,245 | TP: Rs25,471**

## Building blocks for sustained growth

### Quick Pointers:

- NEST is building capabilities given huge penetration led growth across existing and new products given rising influence of Gen Z
- Aims for 10 new launches, NPD share at 6.1%, cost optimization focus across Mfg., sourcing and supply chain

**Nestle India gave 10 Mantras to sustain growth which includes 1) huge scope to increase penetration across segments 2) distribution reach (reaches 2/3 of addressable households) 3) innovations (120 innovations in 7 years, 10 in pipeline with 6.1% of sales) and 4) RURBAN led growth (rising accessibility and affordability). NEST is building capabilities to sustain double digit growth by 1) significant capex program of Rs50bn 2) continued investment in distribution expansion and supply chain 3) new innovations and categories like Pet Care, Millets etc. NEST is targeting to gain from a shift in not only growth of F&B market but a 20x gap which exists between branded and overall food market.**

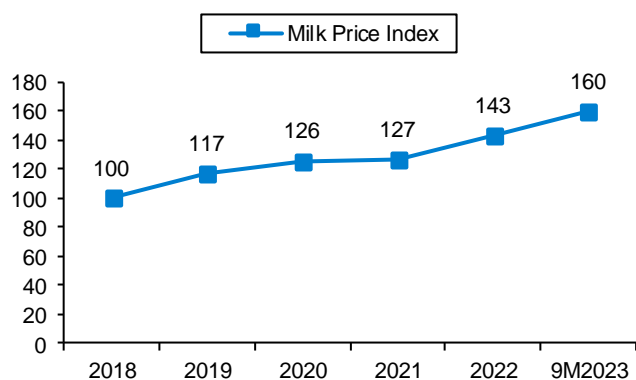
**We believe input cost inflation remains a near term challenge given coffee, sugar and Milk inflation and global geopolitical uncertainty although it aims to reduce impact by efficient sourcing, supply chain, manufacturing and distribution efficiencies. Long term growth drivers remain intact, led by 1) sustained expansion in rural reach (~20-25% of sales) 2) capacity increase in Maggi & confectionary 3) huge scope of growth in segments like coffee, RTD, chocolates & Pet care and 4) channels of future like E-commerce (6.6% of revenues). We estimate 12.2% PAT CAGR over CY23-25. We expect steady returns in near term despite rich valuations of 63.1x Sept25 EPS. Maintain Accumulate with a DCF based TP of Rs25,741 (unchanged).**

**Analyst Meet Takeaways:** 1) There has been an increase in regional competition in noodles category but not much traction 2) The company may vacate the Rs2 SKU but will continue to remain in the Rs5/10 SKU 3) Pricing actions are the last option with first effort to create internal savings 4) The company has taken price actions across 50% of the portfolio and does not expect big rollback in prices 5) Premium products are growing at 2-2.5x of the company average enabled by use of analytics, digital and close eye on on-ground behavior 6) Petcare integration is complete & category is an area of serious interest and should see higher product range given global expertise in coming periods 7) Launched 125+ products over the last 7 years and 10 more products in pipeline. NPD contributed 6.1% of sales in 9MCY23 8) NEST has accelerated development of manufacturing & supply chain capabilities for faster growth 9) E-com salience has increased to 6.6% of domestic sales in 9MCY23. The channel has grown by 20% in 9MCY23 10) Remains open for acquisitions with criteria on fit, capability and valuations 10) Royalty agreement with parent Nestle SA comes up for renewal in Jun'24. Agreement provides access to 2000 brands, R&D support etc. 11) The company has increased its efficiency/effectiveness of ad spends with higher portion of spends towards digital (vs 2 years ago) 12) Focus remains to grow via penetration led volume growth

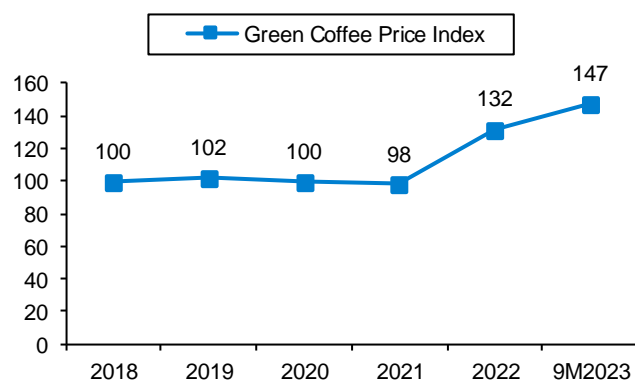
**Exhibit 1: 3QCY23 Results: Revenue up 9.5% YoY; Gross Margins improve 381bps YoY/167bps QoQ**

Y/e Dec (Rs mn)	3QCY23	3QCY22	YoY gr. (%)	2QCY23	9MCY23	9MCY22	YoY gr. (%)
<b>Net Sales</b>	<b>50,368</b>	<b>46,018</b>	<b>9.5</b>	<b>46,585</b>	<b>145,259</b>	<b>126,402</b>	<b>14.9</b>
Gross Profit	28,452	24,241	17.4	25,535	79,977	68,118	17.4
<i>% of NS</i>	<i>56.5</i>	<i>52.7</i>	<i>3.8</i>	<i>54.8</i>	<i>55.1</i>	<i>53.9</i>	<i>1.2</i>
Other Expenses	16,165	14,141	14.3	14,947	46,002	40,304	14.1
<b>EBITDA</b>	<b>12,287</b>	<b>10,101</b>	<b>21.6</b>	<b>10,588</b>	<b>33,975</b>	<b>27,814</b>	<b>22.2</b>
<i>Margins (%)</i>	<i>24.4</i>	<i>21.9</i>	<i>2.4</i>	<i>22.7</i>	<i>23.4</i>	<i>22.0</i>	<i>1.4</i>
Depreciation	1,112	982	13.2	1,074	3,202	3,044	5.2
Interest	314	372	(15.6)	328	1,012	1,097	(7.8)
Other Income	333	306	8.6	240	909	715	27.2
<b>PBT</b>	<b>11,195</b>	<b>9,053</b>	<b>23.7</b>	<b>9,427</b>	<b>30,670</b>	<b>24,387</b>	<b>25.8</b>
Tax	3,139	2,379	32.0	2,410	8,088	6,484	24.7
<i>Effective tax rate (%)</i>	<i>28.0</i>	<i>26.3</i>		<i>25.6</i>	<i>26.4</i>	<i>26.6</i>	
<b>Adjusted PAT</b>	<b>8,055</b>	<b>6,674</b>	<b>20.7</b>	<b>7,017</b>	<b>22,583</b>	<b>17,903</b>	<b>26.1</b>

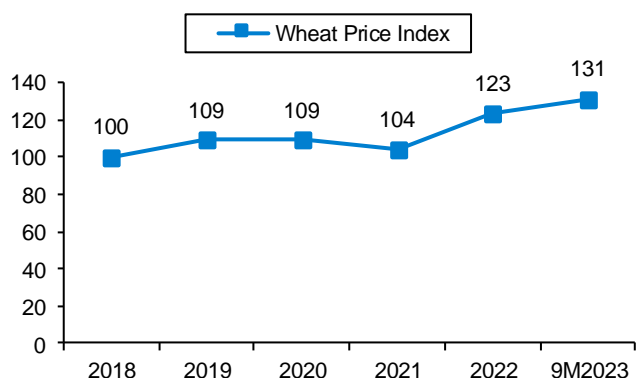
Source: Company, PL

**Exhibit 2: Milk price index shows steady increase**


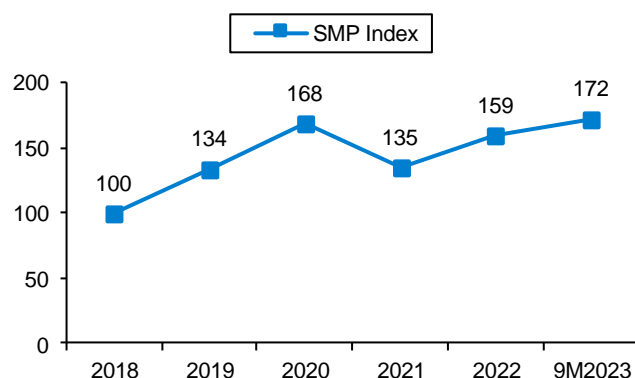
Source: Company, PL

**Exhibit 3: Green Coffee price index on an upswing**


Source: Company, PL

**Exhibit 4: Wheat price index inching up**


Source: Company, PL

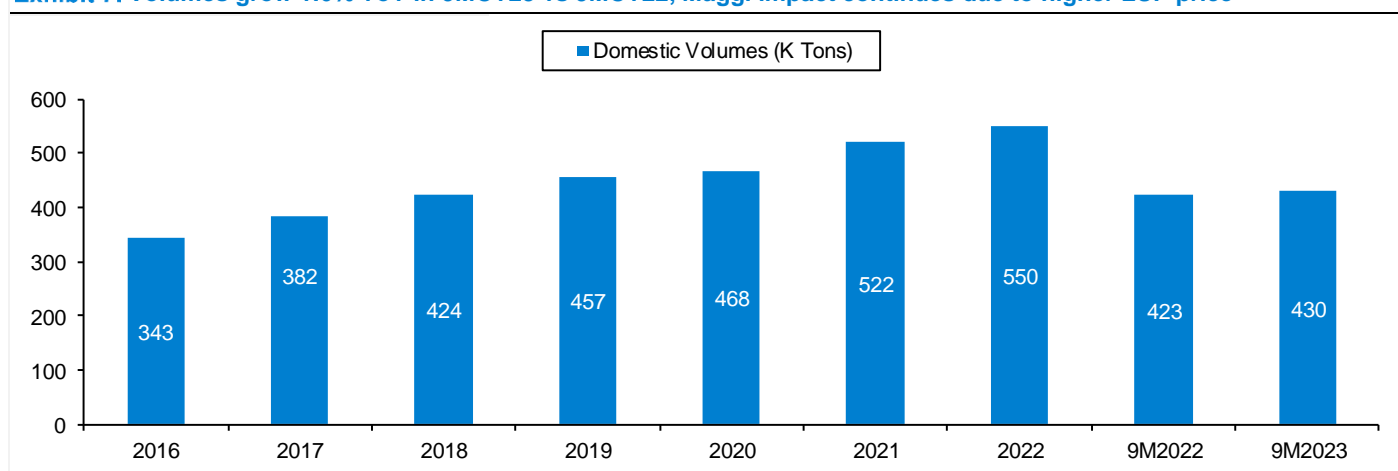
**Exhibit 5: SMP price index up with rise in milk prices**


Source: Bloomberg, PL

**Exhibit 6: Prepared dishes and chocolates to drive long term volume growth**

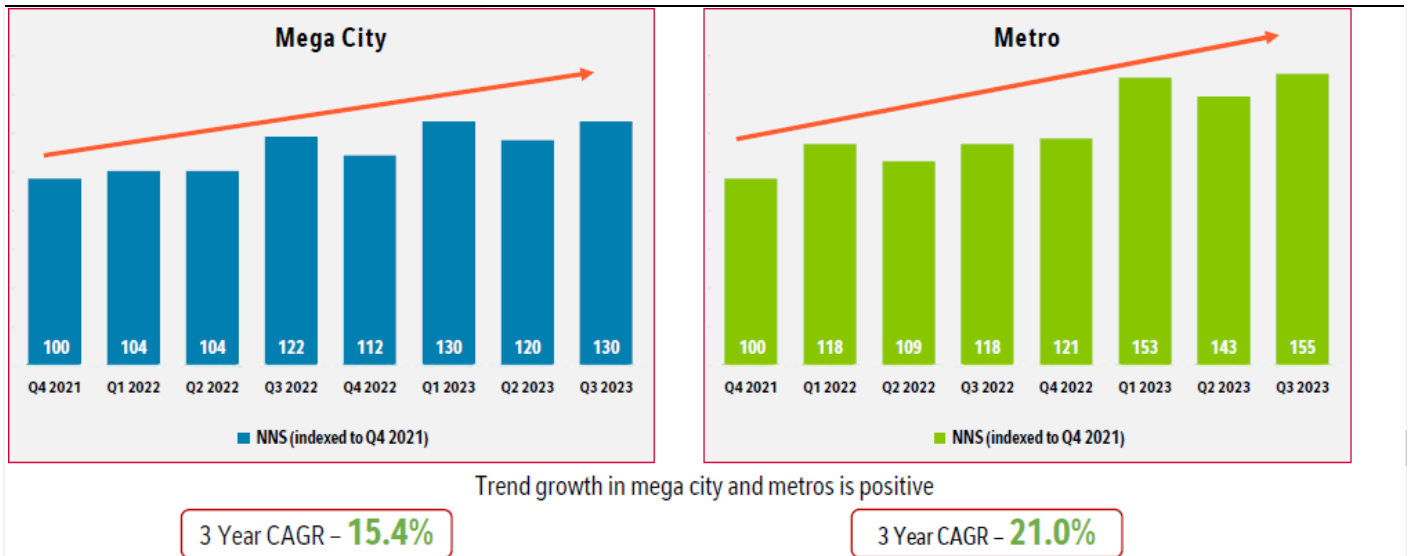
Y/e (December)	CY20	CY21	CY22	CY23E	CY24E	CY25E
<b>Milk Products</b>						
Volume (MT)	1,38,402	1,34,669	134,034	1,37,385	1,40,819	1,44,340
Volume growth	-0.4%	-2.7%	-0.5%	2.5%	2.5%	2.5%
Sales Value (Rs m)	61,488	62,686	68,157	76,847	82,707	88,166
Growth in Value	8.8%	1.9%	8.7%	12.8%	7.6%	6.6%
% of sales	46.3%	42.8%	40.6%	39.5%	37.5%	35.7%
<b>Beverages</b>						
Volume (MT)	20,772	24,507	28,020	30,542	33,596	36,284
Value (Rs m)	14,763	16,918	20,188	23,765	27,449	30,534
Growth in Volume	-21.3%	18.0%	14.3%	9.0%	10.0%	8.0%
Growth in Value	-1.7%	14.6%	19.3%	17.7%	15.5%	11.2%
%Sales	11.1%	11.6%	12.0%	12.2%	12.4%	12.4%
<b>Prepared Dishes &amp; Cooking Aids</b>						
Volume (MT)	2,81,392	3,27,659	348,225	3,72,601	4,21,039	4,71,564
Value (Rs m)	39,108	45,501	53,006	62,104	72,283	83,386
Growth in Volume	6.6%	16.4%	5.7%	7.0%	13.0%	12.0%
Growth in Value	11.8%	16.3%	15.7%	17.2%	16.4%	15.4%
%Sales	29.4%	31.1%	31.6%	31.9%	32.8%	33.8%
<b>Chocolate &amp; Confectionery</b>						
Volume (MT)	50,358	55,648	62,401	70,513	80,385	90,835
Value (Rs.mn)	17,301	19,501	22,305	25,708	29,894	34,455
Realisation (Rs./Kg)	344	350	357	365	372	379
Growth in volume	2.7%	10.5%	12.1%	13.0%	14.0%	13.0%
Growth in Value	5.3%	12.7%	14.4%	15.3%	16.3%	15.3%
Growth in Realisations	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%
% Sales	13.0%	13.3%	13.3%	13.2%	13.6%	14.0%

Source: Company, PL

**Exhibit 7: Volumes grow 1.6% YoY in 9MCY23 vs 9MCY22, Maggi impact continues due to higher LUP price**


Source: Company, PL

Exhibit 8: Metros are growing faster than Mega cities, both growing above teens



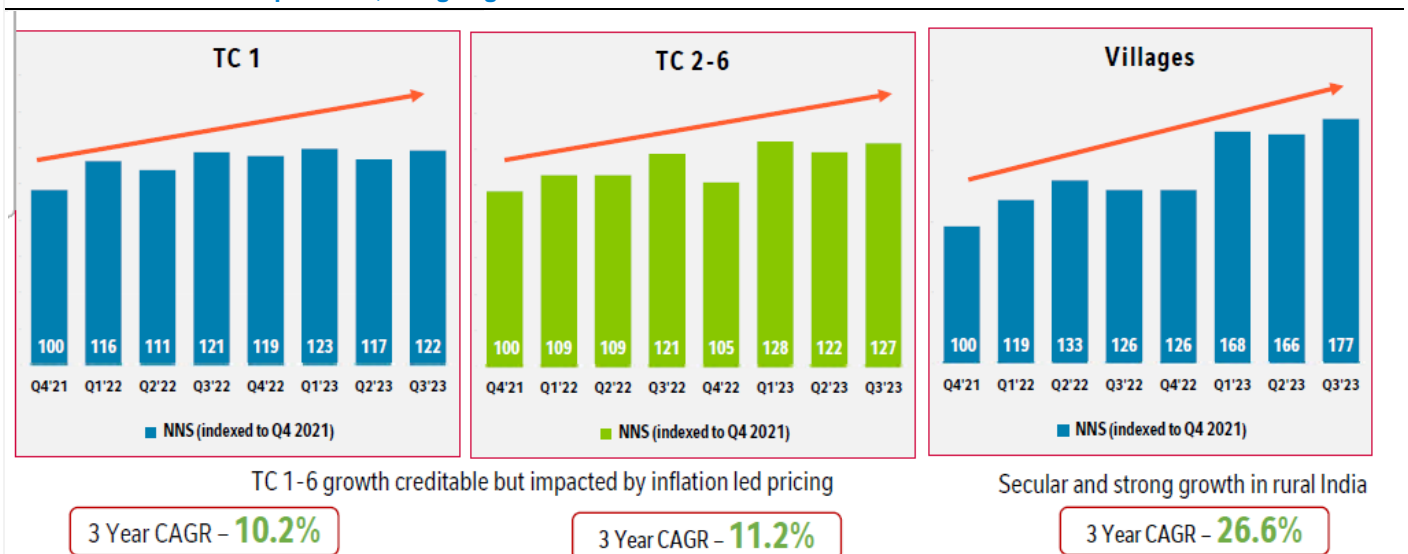
Analyst and Institutional Investor Meet, October 2023  
\*Rolling CAGR Q4 2020 to Q3 2023

Town Class based on population  
Mega City > 40L Metro >=10L & <40L

Good food, Good life

Source: Company, PL

Exhibit 9: T1-T6 under pressure, villages growth above 25%

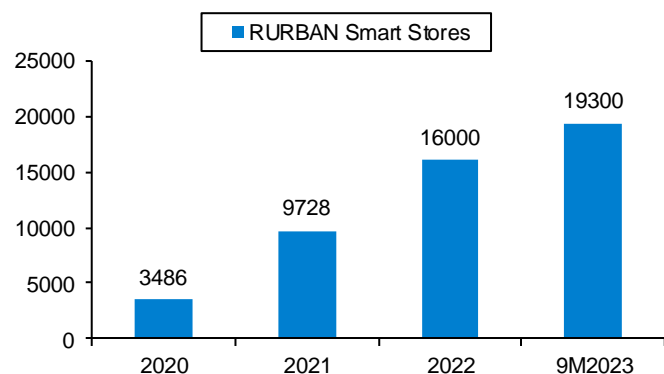


Analyst and Institutional Investor Meet, October 2023  
\*Rolling CAGR Q4 2020 to Q3 2023

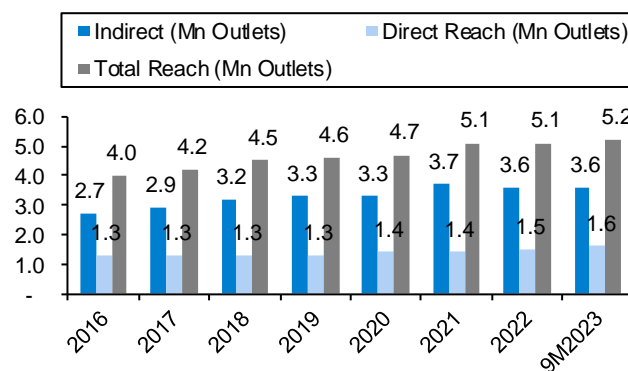
Town Class based on population  
TC 1 >=1L & <10L TC 2-6 <1L Villages: 70%+ rural population's occupation is agriculture

Good food, Good life

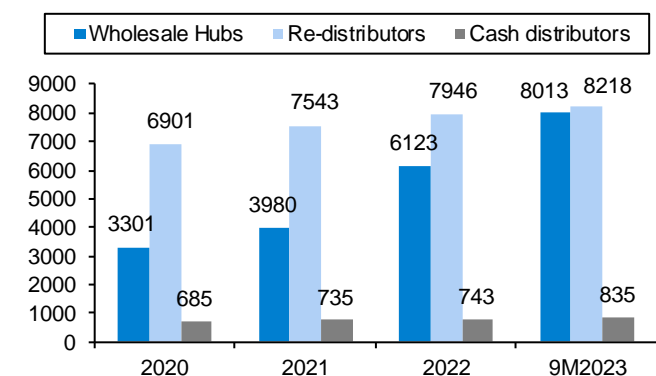
Source: Company, PL

**Exhibit 10: RURBAN Smart stores continues to increase**


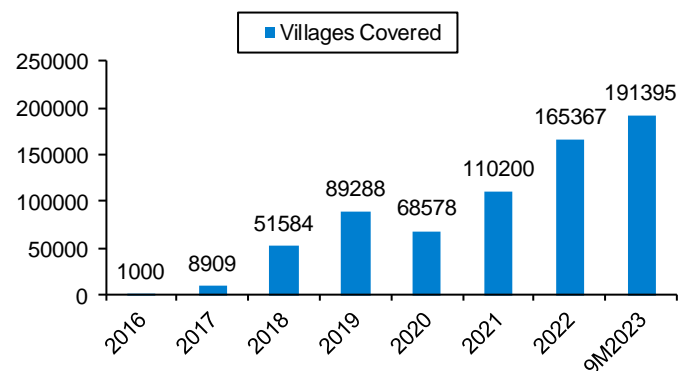
Source: Company, PL

**Exhibit 11: Led by increase in outlet coverage**


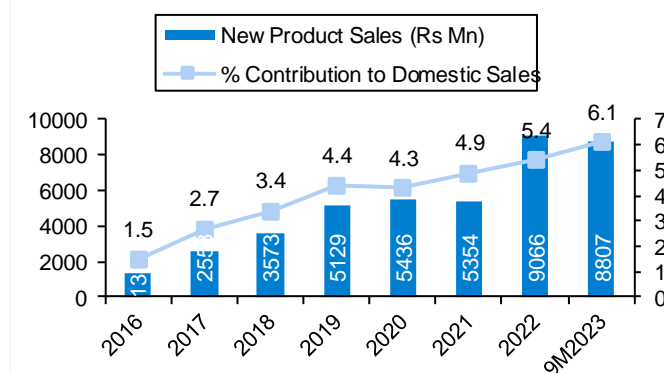
Source: Company, PL

**Exhibit 12: Calibrated increase in distribution**


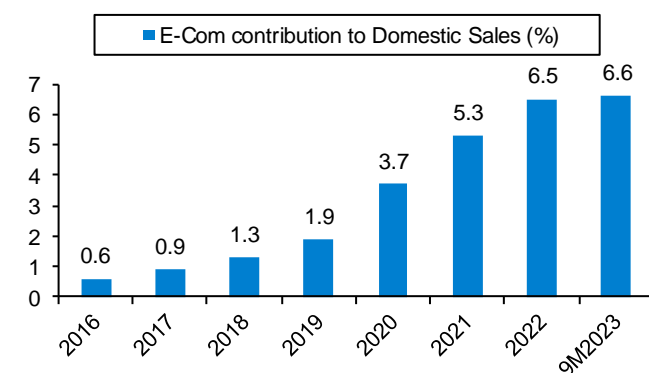
Source: Company, PL

**Exhibit 13: To support rural reach, target 120000 in CY23**


Source: Bloomberg, PL

**Exhibit 14: NPD salience continues to gain scale**


Source: Company, PL

**Exhibit 15: E-com channel contribution continues to rise**


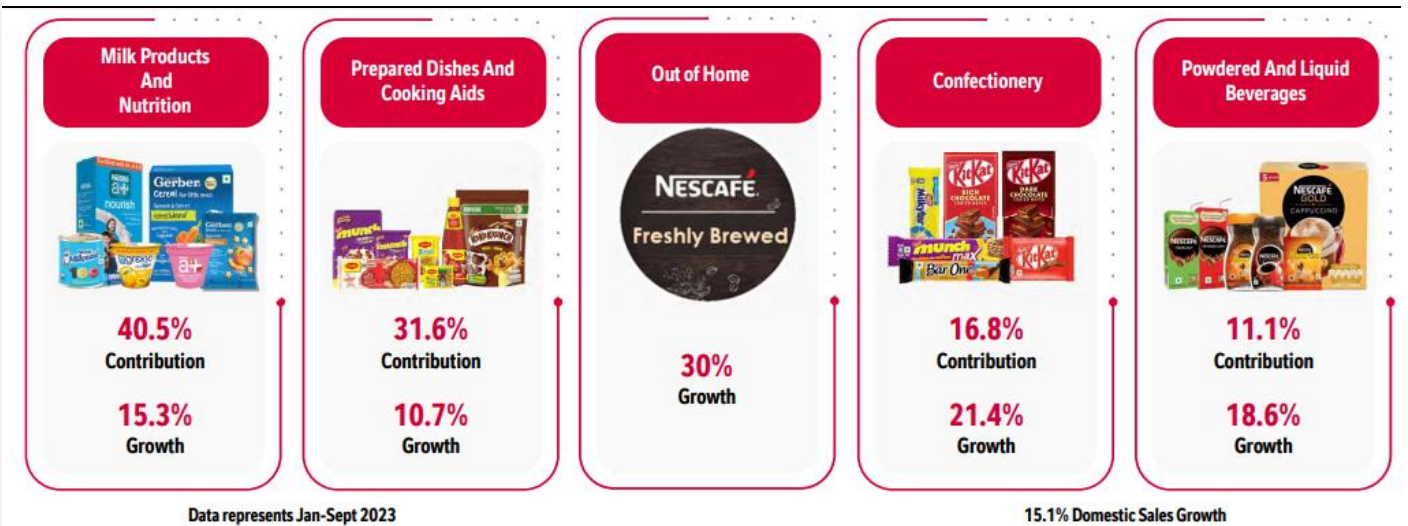
Source: Bloomberg, PL

Exhibit 16: Crossed 16000 distribution touchpoints

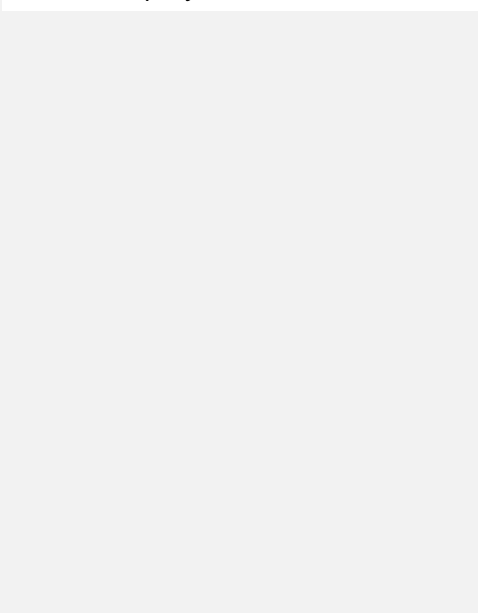


Source: Company, PL

Exhibit 17: Milk products/prepared dishes contribution at 40.5%/31.6%



Source: Company, PL





## Financials

### Income Statement (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
<b>Net Revenues</b>	<b>1,68,970</b>	<b>1,95,477</b>	<b>2,21,611</b>	<b>2,48,035</b>
YoY gr. (%)	14.6	15.7	13.4	11.9
Cost of Goods Sold	77,499	87,278	99,146	1,10,203
Gross Profit	91,471	1,08,199	1,22,465	1,37,832
Margin (%)	54.1	55.4	55.3	55.6
Employee Cost	16,355	18,479	20,837	23,200
Other Expenses	17,821	21,867	24,970	27,801
<b>EBITDA</b>	<b>37,583</b>	<b>46,085</b>	<b>52,307</b>	<b>59,476</b>
YoY gr. (%)	6.1	22.6	13.5	13.7
Margin (%)	22.2	23.6	23.6	24.0
Depreciation and Amortization	4,030	4,366	5,156	6,095
<b>EBIT</b>	<b>33,553</b>	<b>41,720</b>	<b>47,151</b>	<b>53,381</b>
Margin (%)	19.9	21.3	21.3	21.5
Net Interest	1,546	1,948	2,154	2,375
Other Income	1,010	1,290	567	690
<b>Profit Before Tax</b>	<b>33,017</b>	<b>41,061</b>	<b>45,564</b>	<b>51,697</b>
Margin (%)	19.5	21.0	20.6	20.8
Total Tax	8,655	10,758	11,938	13,544
Effective tax rate (%)	26.2	26.2	26.2	26.2
<b>Profit after tax</b>	<b>24,362</b>	<b>30,303</b>	<b>33,626</b>	<b>38,152</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>24,362</b>	<b>30,303</b>	<b>33,626</b>	<b>38,152</b>
YoY gr. (%)	4.5	24.4	11.0	13.5
Margin (%)	14.4	15.5	15.2	15.4
Extra Ord. Income / (Exp)	(163)	(512)	(570)	(631)
<b>Reported PAT</b>	<b>24,199</b>	<b>29,791</b>	<b>33,057</b>	<b>37,521</b>
YoY gr. (%)	14.2	23.1	11.0	13.5
Margin (%)	14.3	15.2	14.9	15.1
Other Comprehensive Income	1,119	(500)	(500)	(500)
Total Comprehensive Income	25,319	29,291	32,557	37,021
<b>Equity Shares O/s (m)</b>	<b>96</b>	<b>96</b>	<b>96</b>	<b>96</b>
<b>EPS (Rs)</b>	<b>252.7</b>	<b>314.3</b>	<b>348.8</b>	<b>395.7</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>76,972</b>	<b>86,358</b>	<b>1,04,637</b>	<b>1,25,898</b>
Tangibles	76,972	86,358	1,04,637	1,25,898
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>46,535</b>	<b>50,644</b>	<b>55,721</b>	<b>61,881</b>
Tangibles	46,535	50,644	55,721	61,881
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>30,436</b>	<b>35,714</b>	<b>48,915</b>	<b>64,017</b>
Tangibles	30,436	35,714	48,915	64,017
Intangibles	-	-	-	-
Capital Work In Progress	3,584	11,000	20,000	17,000
Goodwill	-	-	-	-
Non-Current Investments	6,160	6,283	6,374	6,466
Net Deferred tax assets	256	364	483	619
Other Non-Current Assets	14,449	14,810	15,180	15,560
<b>Current Assets</b>				
Investments	10,697	3,890	1,102	7,404
Inventories	19,288	21,587	24,032	25,948
Trade receivables	1,919	2,132	2,416	2,705
Cash & Bank Balance	932	4,160	436	(59)
Other Current Assets	1,381	1,519	1,671	1,838
<b>Total Assets</b>	<b>89,787</b>	<b>1,02,254</b>	<b>1,21,491</b>	<b>1,42,471</b>
<b>Equity</b>				
Equity Share Capital	964	964	964	964
Other Equity	23,627	29,486	41,795	55,677
<b>Total Network</b>	<b>24,592</b>	<b>30,450</b>	<b>42,759</b>	<b>56,641</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	267	267	267	267
Provisions	32,052	34,013	36,224	38,688
Other non current liabilities	2,080	2,105	2,113	2,207
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	34	34	34	34
Trade payables	19,338	22,716	25,805	28,683
Other current liabilities	11,426	12,670	14,288	15,951
<b>Total Equity &amp; Liabilities</b>	<b>89,787</b>	<b>1,02,254</b>	<b>1,21,491</b>	<b>1,42,471</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Dec	CY22	CY23E	CY24E	CY25E
PBT	33,017	41,061	45,564	51,697
Add. Depreciation	4,030	4,366	5,156	6,095
Add. Interest	1,546	1,948	2,154	2,375
Less Financial Other Income	1,010	1,290	567	690
Add. Other	(2,339)	(1,873)	(1,111)	(1,094)
Op. profit before WC changes	36,253	45,502	51,763	59,072
Net Changes-WC	(3,743)	8,637	4,495	(4,264)
Direct tax	(8,655)	(10,758)	(11,938)	(13,544)
<b>Net cash from Op. activities</b>	<b>23,855</b>	<b>43,381</b>	<b>44,320</b>	<b>41,263</b>
Capital expenditures	(5,642)	(17,059)	(27,358)	(18,196)
Interest / Dividend Income	2,084	2,255	1,681	1,913
Others	1,505	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(2,052)</b>	<b>(14,804)</b>	<b>(25,677)</b>	<b>(16,283)</b>
Issue of share cap. / premium	384	(100)	-	-
Debt changes	(40)	-	-	-
Dividend paid	(20,247)	(23,333)	(20,247)	(23,140)
Interest paid	(1,546)	(1,948)	(2,154)	(2,375)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(21,449)</b>	<b>(25,381)</b>	<b>(22,401)</b>	<b>(25,514)</b>
<b>Net change in cash</b>	<b>354</b>	<b>3,196</b>	<b>(3,758)</b>	<b>(534)</b>
Free Cash Flow	18,214	26,322	16,962	23,067

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Dec	CY22	CY23E	CY24E	CY25E
<b>Per Share(Rs)</b>				
EPS	252.7	314.3	348.8	395.7
CEPS	294.5	359.6	402.2	458.9
BVPS	255.1	315.8	443.5	587.5
FCF	188.9	273.0	175.9	239.3
DPS	210.0	242.0	210.0	240.0
<b>Return Ratio(%)</b>				
RoCE	150.1	150.0	127.8	106.8
ROIC	42.9	44.3	39.3	39.5
RoE	110.6	110.1	91.9	76.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.3)	0.0	(0.1)
Net Working Capital (Days)	4	2	1	0
<b>Valuation(x)</b>				
PER	96.0	77.1	69.5	61.3
P/B	95.1	76.8	54.7	41.3
P/CEPS	294.5	359.6	402.2	458.9
EV/EBITDA	61.9	50.6	44.7	39.2
EV/Sales	13.8	11.9	10.5	9.4
Dividend Yield (%)	0.9	1.0	0.9	1.0

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

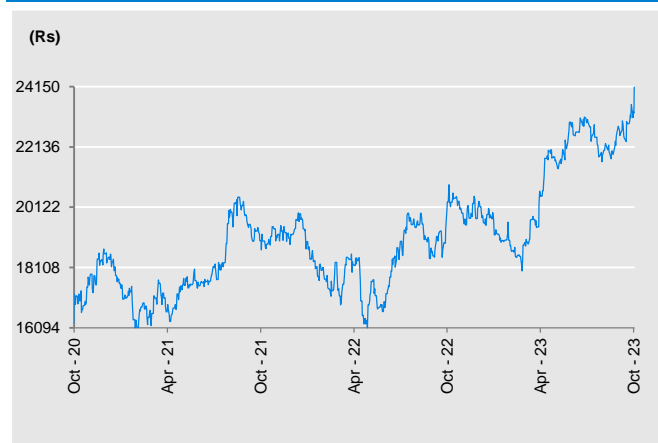
Y/e Dec	Q4CY22	Q1CY23	Q2CY23	Q3CY23
<b>Net Revenue</b>	<b>42,568</b>	<b>48,305</b>	<b>46,585</b>	<b>50,368</b>
YoY gr. (%)	13.6	21.0	15.1	9.5
Raw Material Expenses	19,215	22,315	21,050	21,916
Gross Profit	23,353	25,990	25,535	28,452
Margin (%)	54.9	53.8	54.8	56.5
<b>EBITDA</b>	<b>9,769</b>	<b>11,100</b>	<b>10,588</b>	<b>12,287</b>
YoY gr. (%)	15.7	19.7	25.4	21.6
Margin (%)	22.9	23.0	22.7	24.4
Depreciation / Depletion	987	1,017	1,074	1,112
<b>EBIT</b>	<b>8,782</b>	<b>10,083</b>	<b>9,515</b>	<b>11,176</b>
Margin (%)	20.6	20.9	20.4	22.2
Net Interest	448	370	328	314
Other Income	296	337	240	333
<b>Profit before Tax</b>	<b>8,630</b>	<b>10,049</b>	<b>9,427</b>	<b>11,195</b>
Margin (%)	20.3	20.8	20.2	22.2
Total Tax	2,310	2,538	2,410	3,139
Effective tax rate (%)	26.8	25.3	25.6	28.0
<b>Profit after Tax</b>	<b>6,319</b>	<b>7,511</b>	<b>7,017</b>	<b>8,055</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>6,319</b>	<b>7,511</b>	<b>7,017</b>	<b>8,055</b>
YoY gr. (%)	5.0	25.8	30.0	20.7
Margin (%)	14.8	15.5	15.1	16.0
Extra Ord. Income / (Exp)	(39)	(145)	(33)	1,026
<b>Reported PAT</b>	<b>6,281</b>	<b>7,366</b>	<b>6,983</b>	<b>9,081</b>
YoY gr. (%)	65.5	24.7	36.9	37.3
Margin (%)	14.8	15.2	15.0	18.0
Other Comprehensive Income	1,075	(512)	(28)	(27)
<b>Total Comprehensive Income</b>	<b>7,355</b>	<b>6,854</b>	<b>6,956</b>	<b>9,054</b>
Avg. Shares O/s (m)	96	96	96	96
<b>EPS (Rs)</b>	<b>65.5</b>	<b>77.9</b>	<b>72.8</b>	<b>83.5</b>

Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	19-Oct-23	Accumulate	25,471	23,263
2	07-Oct-23	Accumulate	23,585	22,912
3	27-Jul-23	Accumulate	23,585	22,325
4	06-Jul-23	Accumulate	22,600	23,099
5	25-Apr-23	Accumulate	22,600	20,670
6	11-Apr-23	Accumulate	22,070	19,530
7	16-Feb-23	Accumulate	21,021	19,629
8	06-Jan-23	Accumulate	20,201	19,890

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,571	3,196
2	Avenue Supermarts	BUY	4,724	3,920
3	Britannia Industries	Hold	4,612	4,538
4	Colgate Palmolive	Hold	1,869	1,993
5	Dabur India	Accumulate	597	547
6	Emami	Accumulate	524	527
7	Hindustan Unilever	Hold	2,786	2,548
8	ITC	Accumulate	492	450
9	Jubilant FoodWorks	Hold	490	533
10	Kansai Nerolac Paints	Accumulate	351	324
11	Marico	Hold	581	537
12	Metro Brands	Accumulate	1,231	1,208
13	Mold-tek Packaging	Hold	956	892
14	Nestle India	Accumulate	25,471	23,263
15	Pidilite Industries	Hold	2,610	2,454
16	Restaurant Brands Asia	Accumulate	142	125
17	Titan Company	Accumulate	3,312	3,310
18	Westlife Foodworld	Hold	958	955

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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