

Nestle India

HOLD

Entry into new business segments; promising

Summary

Nestle India (NEST) 2QCY22 result was below our estimates. Revenue growth momentum is impressive at 16%YoY driven by price hikes. Maggie portfolio grew at healthy 14% YoY during 1HCY22 while confectionary and beverages grew by 24% and 22% YoY respectively. Growth in milk products has been satisfactory at 7% during 1HCY22. NPDs and e-commerce now contributes c. 6% to revenue. NEST has acquired Purina Petcare India (fellow subsidiary of Nestle Switzerland) for Rs 1.2 bn (3x of sales) which is involved in pet food business (Rs 40bn industry size; growing at 25%+ rate). Further, NEST to enter into toddler nutrition market (Rs 35bn size) under Gerber brand (global brand of the parent). Inflation impacted operating margins. Accordingly we trimmed our EPS estimate by 3-5% during CY22-23E. We maintain HOLD with revised TP of Rs19,370.

Key Highlights and Investment Rationale

- Domestic business continues growth momentum:** Domestic sales grew 16.4% YoY driven by price hikes. Milk products, prepared dishes, confectionary, and beverages segment grew 7%, 14%, 24% and 22% during 1HCY22. However, exports business witnessed muted growth (+1%YoY). Ecommerce (6% of revenue) sustained healthy growth despite high covid base.
- Input cost inflation impacts margins:** Gross margin contracted by 304bp YoY to 54% due to cost pressures (15% in 1HCY22). As a consequence, EBITDA margin declined 409bp YoY to 20.3%. Adjusted PAT fell by 4.3%YoY to Rs 5bn.
- Maintain HOLD:** We trim our EPS estimates by 3-5% during CY22-23E. We raise our P/E multiple to 65x given NEST has entered new markets equivalent to c. 50% of TTM revenue. At current price, our rating stands at HOLD.

TP **Rs 19,370**

CMP **Rs 19,104**

Potential upside/downside 1%

Previous Rating HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	9.7	3.7	6.1
Rel to Sensex	2.8	4.8	(2.4)

V/s Consensus

EPS (Rs)	CY22E	CY23E
IDBI Capital	261.6	298.0
Consensus	299.0	339.4
% difference	(12.5)	(12.2)

Key Stock Data

Bloomberg/Reuters	NEST IN /NEST.BO
Sector	FMCG
Shares o/s (mn)	96
Market cap. (Rs mn)	1,841,969
3-m daily average value (Rs mn)	63.7
52-week high / low	Rs20,600 / 16,000
Sensex / Nifty	56,858 / 16,930

Shareholding Pattern (%)

Promoters	62.8
FII	11.7
DII	8.5
Public	17.0

Financial snapshot

(Rs mn)

Year	CY19	CY20	CY21	CY22E	CY23E
Revenue	1,23,689	1,33,499	1,47,094	1,62,359	1,81,158
Change (yoy, %)	10	8	10	10	12
EBITDA	28,795	34,409	39,212	38,417	44,459
Change (yoy, %)	10	19	14	(2)	16
EBITDA Margin(%)	23.3	25.8	26.7	23.7	24.5
Adj.PAT	19,691	23,218	24,745	25,228	28,733
EPS (Rs)	204.2	240.8	256.6	261.6	298.0
Change (yoy, %)	22.0	17.9	6.6	2.0	13.9
PE(x)	93.5	79.3	74.4	73.0	64.1
Dividend Yield (%)	1.6	1.0	1.0	0.8	0.9
EV/EBITDA (x)	63.5	53.0	46.8	47.5	40.8
RoE (%)	70.3	117.5	120.6	95.1	74.3
RoCE (%)	45.8	59.5	64.1	55.5	52.7

Source: IDBI Capital Research

Conference call highlights

- During 2QCY22, revenue growth of 16.4%YoY was driven by 8.5% pricing and 7.9% of volume growth (1HCY22, 7% volume growth and 6.3% price led growth)
- For NEST, inflation stood at 15% during 2022 (5x of inflation during 2018-20 CAGR). However, company witnessed softening in edible oil and packaging material prices during 2QCY22
- Products launched since 2015 contributed c. 5% to 1HCY22 revenue
- Export business is a sourcing opportunity for company to serve Indian diaspora and affiliates of Nestle globally
- Company witnessed c. 15-16% YoY growth across Metros and Mega cities in 2QCY22
- NEST had penetration led growth in rural. Company witnessed double digit (c. 14-31%YoY) growth across rural towns during the quarter
- Company has specific starter packs, price points and large packs according to geographies
- NEST expects to drive growth in Purina Petcare by leveraging company's distribution, organized trade and quick commerce capabilities across Tier 1 & 2 cities
- Ecommerce contributes c. 14% to Purina Pet care business (6.4% to NEST's revenue)
- Management expects the pet food category (Rs4,000 crs) to grow with increase in pet adoption (growing at 25%). Currently, pet care products penetration is c. 5%
- Company will launch customized toddler products as per Indian requirements under the brand 'Gerber' (premium products)
- Pre-pandemic EBITDA margins can be achieved only with significant decline in RM prices

Exhibit 1: Standalone Quarterly Snapshot

(INR m)	Q2CY22	Q2CY21	YoY (%)	Q1CY22	QoQ (%)	YTDCY22	YTDCY21	YoY (%)
Revenues	40,366	34,767	16.1	39,807	1.4	80,173	70,875	13.1
COGS	18,583	14,948	24.3	17,757	4.7	36,341	29,924	21.4
Gross profit	21,782	19,819	9.9	22,050	-1.2	43,832	40,951	7.0
Gross Margin (%)	54.0	57.0	-304bps	55.4	-143bps	54.7	57.8	-311bps
Employee expenses	4,084	3,783	7.9	3,966	3.0	8,050	7,464	7.9
<i>% of net sales</i>	<i>10.1</i>	<i>10.9</i>	<i>-77bps</i>	<i>10.0</i>	<i>15bps</i>	<i>10.0</i>	<i>10.5</i>	<i>-49bps</i>
Other Expenses	9,504	7,556	25.8	8,837	7.5	18,341	15,709	16.8
<i>% of net sales</i>	<i>23.5</i>	<i>21.7</i>	<i>181bps</i>	<i>22.2</i>	<i>135bps</i>	<i>22.9</i>	<i>22.2</i>	<i>71bps</i>
EBITDA	8,195	8,480	-3.4	9,247	-11.4	17,441	17,779	-1.9
EBITDA Margin (%)	20.3	24.4	-409bps	23.2	-293bps	21.8	25.1	-333bps
Depreciation	1,016	953	6.6	1,043	-2.6	2,058	1,889	9.0
EBIT	7,179	7,527	-4.6	8,204	-12.49	15,383	15,890	-3.2
Other Income	194	295	-34.3	214	-9.7	408	591	-31.0
Interest Expenses	370	517	-28.5	356	3.9	725	1,057	-31.4
PBT	7,004	7,305	-4.1	8,062	-13.1	15,066	15,424	-2.3
Taxes	1,850	1,919	-3.6	2,115	-12.5	3,965	4,016	-1.2
Adjusted PAT	5,153	5,386	-4.3	5,947	-13.3	11,101	11,408	-2.7
Extra-ordinary items	0	0		0		0	0	
Reported PAT	5,153	5,386	-4.3	5,947	-13.3	11,101	11,408	-2.7
EPS	53.5	55.9	-4.3	61.7	-13.3	115	118	-2.7

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	40,366	38,838	3.9%
EBITDA	8,195	8,855	-7.5%
Margin (%)	20.3%	23%	
PAT	5,153	5,834	-11.7%

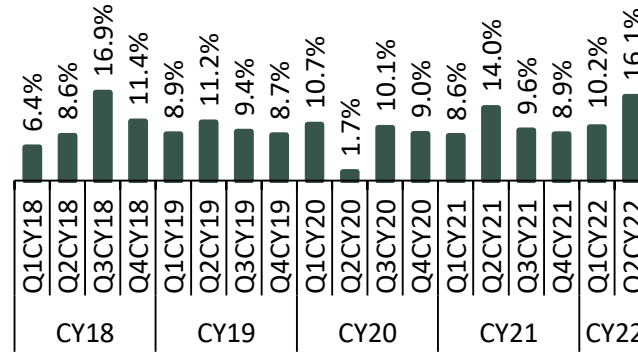
Source: Company; IDBI Capital Research

Exhibit 3: Change in estimates

	CY22E			CY23E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	1,62,359	1,62,359	0.0%	1,81,158	1,81,158	0.0%
EBITDA (Rs mn)	41,177	38,417	-6.7%	46,089	44,459	-3.5%
EBITDA margin (%)	25.4	23.7	-6.7%	25.4	24.5	-3.5%
Net profit (Rs mn)	26,433	25,228	-4.6%	29,625	28,733	-3.0%
EPS (Rs)	274	262	-4.6%	307.2	298.0	-3.0%

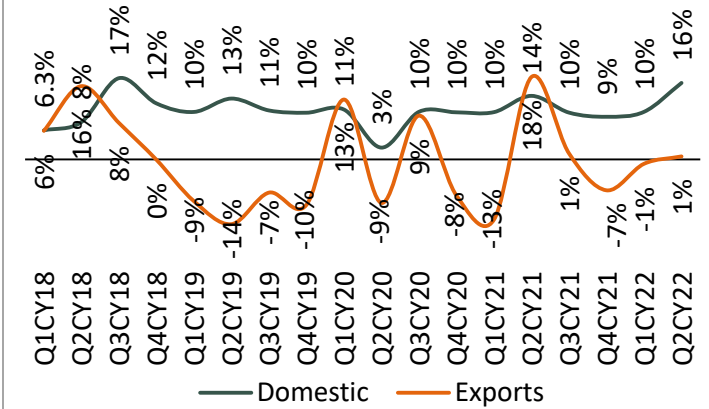
Source: Company; IDBI Capital Research

Exhibit 4: Revenue growth trend (% YoY)



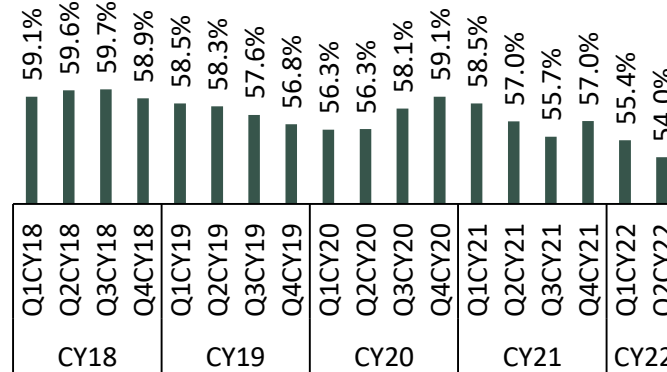
Source: Company; IDBI Capital Research

Exhibit 5: Segmental growth (% YoY)



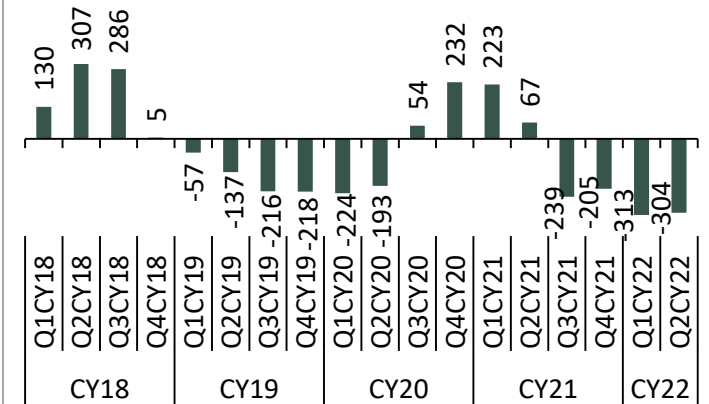
Source: Company; IDBI Capital Research

Exhibit 6: Gross Margin (%)



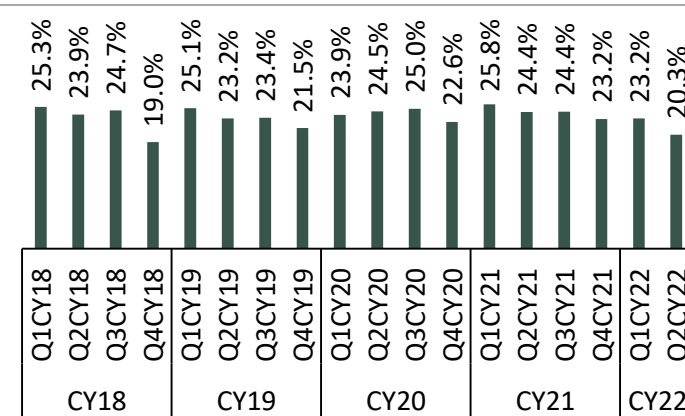
Source: Company; IDBI Capital Research

Exhibit 7: Gross Margin (YoY in bp)



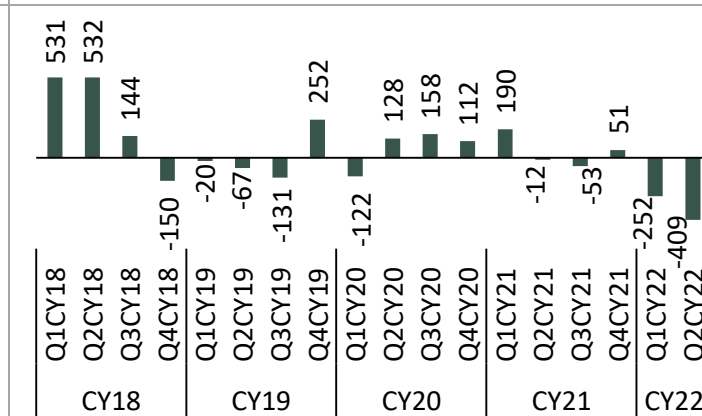
Source: Company; IDBI Capital Research

Exhibit 8: EBITDA Margin (%)



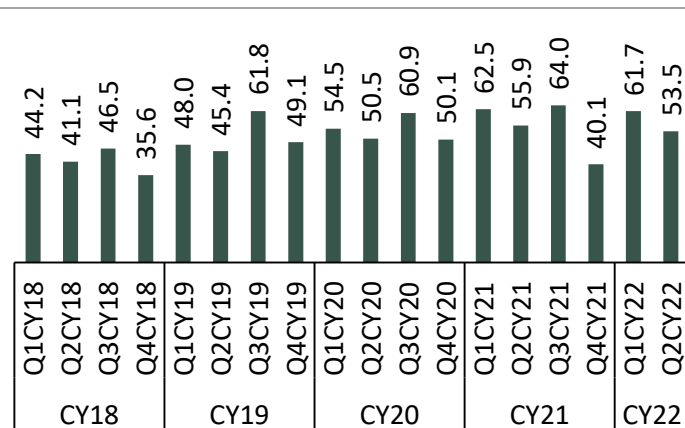
Source: Company; IDBI Capital Research

Exhibit 9: EBITDA Margin (YoY in bp)



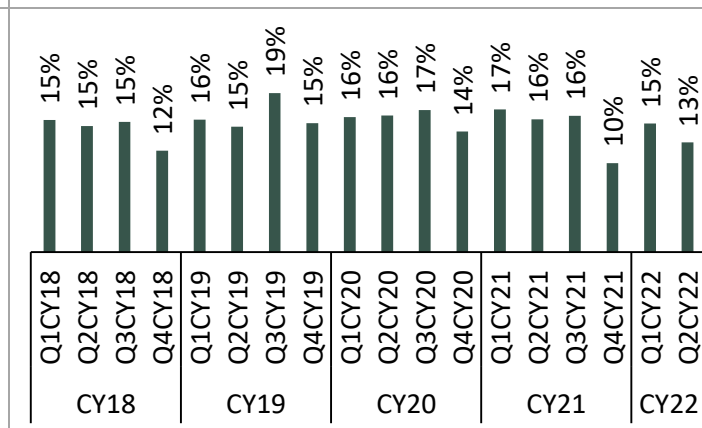
Source: Company; IDBI Capital Research

Exhibit 10: EPS trend



Source: Company; IDBI Capital Research

Exhibit 11: Net profit Margin (%)



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	CY18	CY19	CY20	CY21	CY22E	CY23E
Net sales	1,12,923	1,23,689	1,33,499	1,47,094	1,62,359	1,81,158
<i>Change (yoy, %)</i>	10.8	9.5	7.9	10.2	10.4	11.6
Operating expenses	(86,746)	(94,894)	(99,090)	(1,07,882)	(1,23,942)	(1,36,699)
EBITDA	26,177	28,795	34,409	39,212	38,417	44,459
<i>Change (yoy, %)</i>	24.9	10.0	19.5	14.0	-2.0	15.7
<i>Margin (%)</i>	23.2	23.3	25.8	26.7	23.7	24.5
Depreciation	(3,357)	(3,297)	(3,704)	(3,902)	(4,093)	(5,451)
EBIT	22,820	25,498	30,706	35,310	34,324	39,008
Interest paid	(1,120)	(1,221)	(1,642)	(2,012)	(1,811)	(1,992)
Other income	2,589	2,469	1,458	1,201	1,201	1,381
Pre-tax profit	24,290	26,746	30,522	34,499	33,714	38,398
Tax	(8,220)	(7,054)	(7,304)	(7,389)	(8,486)	(9,665)
<i>Effective tax rate (%)</i>	33.8	26.4	23.9	21.4	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	16,069	19,691	23,218	27,110	25,228	28,733
Exceptional items	-	-	-	2,365	-	-
Adjusted net profit	16,069	19,691	23,218	24,745	25,228	28,733
<i>Change (yoy, %)</i>	31.2	22.5	17.9	6.6	2.0	13.9
EPS	167.4	204.2	240.8	256.6	261.6	298.0
Dividend per sh	113.5	306.0	196.0	200.0	143.9	163.9
<i>Dividend Payout %</i>	67.8	149.8	81.4	77.9	55.0	55.0

Balance Sheet

(Rs mn)

Year-end: March	CY18	CY19	CY20	CY21	CY22E	CY23E
Shareholders' funds	36,737	19,323	20,193	20,845	32,198	45,127
Share capital	964	964	964	964	964	964
Reserves & surplus	35,773	18,358	19,229	19,881	31,233	44,163
Total Debt	351	531	348	341	341	341
Other liabilities	25,243	29,253	33,561	34,947	34,947	34,947
Curr Liab & prov	18,550	21,475	24,895	25,967	28,635	30,953
Current liabilities	16,977	20,621	23,836	24,581	27,249	29,567
Provisions	1,573	855	1,059	1,385	1,385	1,385
Total liabilities	44,143	51,259	58,804	61,255	63,923	66,241
Total equity & liabilities	80,881	70,582	78,997	82,099	96,502	1,11,750
Net fixed assets	25,058	23,700	28,180	32,402	34,072	35,290
Investments	7,334	7,436	7,408	7,107	7,107	7,107
Other non-curr assets	1,120	1,274	1,558	15,203	15,203	15,203
Current assets	47,370	38,172	41,851	27,388	40,121	54,150
Inventories	9,656	12,831	14,165	15,802	17,442	19,462
Sundry Debtors	1,246	1,243	1,649	1,653	1,824	2,035
Cash and Bank	16,101	13,081	17,699	7,354	18,276	30,075
Loans and advances	-	-	-	-	-	-
Total assets	80,881	70,582	78,997	82,099	96,502	1,11,750

Cash Flow Statement

(Rs mn)

Year-end: March	CY18	CY19	CY20	CY21	CY22E	CY23E
Pre-tax profit	24,290	26,746	28,131	28,838	33,714	38,398
Depreciation	3,357	3,297	3,704	3,902	4,093	5,451
Tax paid	(8,813)	(6,728)	(7,029)	(7,286)	(8,486)	(9,665)
Chg in working capital	4,069	6,384	(1,120)	1,201	857	87
Other operating activities	(2,378)	(7,362)	(1,328)	(2,153)	1,811	1,992
Cash flow from operations (a)	20,525	22,337	22,358	24,502	31,989	36,262
Capital expenditure	(1,660)	(1,545)	(8,183)	(8,124)	(5,762)	(6,669)
Chg in investments	(1,422)	(134)	72	(13,468)	-	-
Other investing activities	2,557	2,509	1,498	1,245	-	-
Cash flow from investing (b)	(524)	830	(6,614)	(20,346)	(5,762)	(6,669)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-	-
Dividend (incl. tax)	(10,895)	(29,503)	(18,897)	(19,283)	(13,876)	(15,803)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(2,279)	(5,897)	(661)	(903)	(1,811)	(1,992)
Cash flow from financing (c)	(13,174)	(35,400)	(19,558)	(20,186)	(15,686)	(17,795)
Net chg in cash (a+b+c)	6,826	(12,233)	(3,814)	(16,031)	10,540	11,799

Financial Ratios

Year-end: March	CY18	CY19	CY20	CY21	CY22E	CY23E
Book Value (Rs)	383	200	209	216	334	468
Adj EPS (Rs)	167.4	204.2	240.8	256.6	261.6	298.0
Adj EPS growth (%)	31.7	22.0	17.9	6.6	2.0	13.9
EBITDA margin (%)	23.2	23.3	25.8	26.7	23.7	24.5
Pre-tax margin (%)	21.5	21.6	22.9	23.5	20.8	21.2
Net Debt/Equity (x)	-0.4	(0.6)	(0.9)	(0.3)	(0.6)	(0.7)
ROCE (%)	37.7	45.8	59.5	64.1	55.5	52.7
ROE (%)	45.3	70.3	117.5	120.6	95.1	74.3

DuPont Analysis

Asset turnover (x)	1.5	1.6	1.8	1.8	1.8	1.7
Leverage factor (x)	2.2	2.7	3.8	3.9	3.4	2.7
Net margin (%)	14.2	15.9	17.4	16.8	15.5	15.9

Working Capital & Liquidity ratio

Inventory days	31	38	39	39	39	39
Receivable days	4	4	5	4	4	4
Payable days	52	57	56	59	59	60

Valuations

Year-end: March	CY18	CY19	CY20	CY21	CY22E	CY23E
PER (x)	114.1	93.5	79.3	74.4	73.0	64.1
Price/Book value (x)	49.9	95.3	91.2	88.4	57.2	40.8
EV/Net sales (x)	16.1	14.8	13.7	12.5	11.2	10.0
EV/EBITDA (x)	69.5	63.5	53.0	46.8	47.5	40.8
Dividend Yield (%)	0.6	1.6	1.0	1.0	0.8	0.9

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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