INVasset Corporate Insights

Nestlé

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Nestle India: Driving Innovation and Growth in the Food Industry

Leading FMCG Player: Nestle India, a subsidiary of Nestle S.A., holds a prominent position in India's food sector, boasting renowned brands such as NESCAFÉ, MAGGI, and KIT KAT. With a diversified portfolio spanning milk products, beverages, prepared dishes, and confectionery, Nestle India is a key player in each of these segments, enjoying a significant market share and a vast distribution network comprising over 10,000 distributors and 5.2 million outlets.

Revenue Breakdown: In the first nine months of 2023, Nestle India's revenue distribution showcased the strength of its product portfolio. Milk products and nutrition accounted for 40%, followed by prepared dishes and cooking aids at 32%, confectionery at 17%, and beverages at 11%.

Strategic Expansion: Nestle India is strategically expanding its manufacturing capabilities, with plans to establish its 10th manufacturing facility in Odisha. The company has made substantial investments to bolster its production capacity, committing Rs 5000 Cr between 2023 and 2025. Notably, the Odisha facility alone represents an investment of Rs 900 to Rs 1000 Cr.

Diversification and Innovation: With a focus on diversification and innovation, Nestle India has introduced 130 new products in the last seven years. Recent launches such as MAGGI Korean noodles, MAGGI Oats Noodles with Millet Magic, and GERBER Puffs reflect the company's commitment to meeting evolving consumer preferences and dietary trends.

Embracing Millet-Based Products: Recognizing the growing demand for healthier options, Nestle India has embarked on collaborations to explore the benefits of millets. Through partnerships with institutions like Nutrihub and ICAR-Institute of Millet Research, Nestle has introduced products like Nestlé a+ Masala Millet, CEREGROW Grain Selection with ragi, and Nestlé MILO Cocoa Malt with bajra, catering to health-conscious consumers.

Innovative Initiatives: In addition to product diversification, Nestle India has embarked on innovative initiatives such as launching its first-ever direct-to-consumer platform, mynestle.in. This platform provides consumers with easy access to Nestle's products manufactured in India, further strengthening its presence in the digital space.

Strategic Divestment: In a strategic move, Nestle India has approved the slump sale of its Nestlé Business Services Division to Purina PetCare India Private Limited. This divestment aligns with the company's focus on streamlining operations and optimizing resources.

Conclusion: Nestle India's relentless pursuit of innovation, strategic expansion, and commitment to healthier product offerings position it as a formidable player in India's food industry.

Stock Data	
CMP (02-04-2024)	2612.10
52 Week High/Low	2769 / 1937
Face Value	1.00
Market Cap (In Crs)	2,51,635
Enterprise Value (In Crs)	2,51,102
NSE	NESTLEIND
BSE	500790
Bloomberg	NEST:IN
Sector	Consumer Food

Shareholding Pattern (in %)		
	DEC 23	SEPT 23
Promoter	62.76	62.76
FII	12.09	12.10
DII	9.16	9.32
Public	15.98	15.81

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	0.39	14.19	29.18
Nestle India Ltd	0.49	16.15	32.67

Key Ratios	
P/E	83.8
P/S	13.2
P/B	81.4
Debt To Equity	0.11
ROE	108
ROCE	135
Dividend Yield	0.65

Q3 FY 24 Result Update

Q2 FY24 Result Comparison (In Rs Cr)					
	Q3 FY24	Q2 FY24	Q3 FY23	QOQ	YOY
Sales	4,600	5,037	4,257	-8.68	8.06
EBITDA	1,018	1,364	1,003	-25.37	1.50
EBIT	909	1,253	904	-27.45	0.55
Net Profit	656	908	628	-27.75	4.46
EPS	6.80	9.42	6.51	-27.81	4.45

Result Highlights

Quarterly Financial Fluctuations:

Seasonal Dips in Sales Performance: The data reveals a notable dip in sales from the second to the third quarter of FY24, dropping from 5,037 crore to 4,600 crore. Despite this quarterly dip, a YOY comparison shows a positive trend, with sales up by 8.06% from the same quarter in the previous fiscal year. This suggests that while the company may experience seasonal variances, the overall trajectory is one of growth.

Operational Efficiency Pressures: Earnings before interest, taxes, depreciation, and amortization (EBITDA) have seen a significant decrease of 25.37% on a QOQ basis, falling from 1,364 crore in Q2 to 1,018 crore in Q3. However, when viewed through the lens of YOY performance, EBITDA has risen slightly by 1.50%. This indicates that the company may have encountered operational efficiency challenges in the most recent quarter, despite maintaining a slight growth YOY.

Impact on Profitability: Operating profit, or EBIT, also suffered a sharp quarterly decline of 27.45%, plummeting from 1,253 crore to 909 crore. Compared to the same quarter in the previous year, this represents a modest increase of 0.55%. This suggests that, although there is resilience in YOY growth, the company is likely facing higher operational costs or reduced margins more recently.

Net Profit and Shareholder Value: Net profit took a significant hit, decreasing by 27.75% from 908 crore in Q2 to 656 crore in Q3. This indicates a contraction in profitability that is slightly more pronounced than the operational declines, hinting at possible additional factors affecting the bottom line. Moreover, when compared year over year, the net profit slightly decreased by 4.46%, which could raise concerns among stakeholders about the company's profitability sustainability.

Earnings Per Share Insights: Earnings Per Share (EPS) is a crucial indicator for investors, and it has seen a decrease of 27.81% quarter-over-quarter, from 9.42 to 6.80. Despite the quarterly fall, EPS has improved by 4.45% YOY. The quarterly decline might be attributed to the aforementioned factors that affected net profit, whereas the annual improvement in EPS points to a long-term positive outlook for shareholders.

Conclusion: In summary, while the company is navigating through a challenging quarter with declines in key financial metrics compared to the previous quarter, it is essential to note the positive YOY growth figures. These suggest that while there may be short-term headwinds, the overall health of the company remains stable with an upward trend. Investors and analysts would likely be keen on understanding the reasons behind the quarterly figures and the company's strategy moving forward.

Concall Highlights

Strengthening Ties: Celebrating Distributor Loyalty: Our network is both expansive and experienced, with a remarkable total of more than 2,000 distributors. These relationships form the backbone of our distribution strategy, ensuring that our products and services have an impressive reach. Highlighting our commitment to nurturing long-term partnerships, nearly 470 of these distributors have been part of our journey for over a decade, reflecting mutual growth and trust. Furthermore, the enduring loyalty is showcased by approximately 360 distributors who have surpassed a 20-year milestone with us, a testament to the lasting bonds and deep-seated trust we have cultivated. This long-standing network exemplifies our dedication to stability and the sustained support we pledge to our partners.

Driving Towards a Greener Future: The company showcases its strong commitment to eco-friendly practices in logistics, underlined by a series of impressive sustainable initiatives. They have significantly increased the use of railways for transport, jumping from a mere 0.2% to 6% in the last 3 years, which is a clear shift towards more sustainable shipping methods. Enhancing efficiency, they've also improved payload utilization from 90.3% to 94% in the same period, optimizing capacity and reducing the number of trips required. In an effort to reduce their carbon footprint, the introduction of a Liquified Natural Gas (LNG) fleet marks a forward step in adopting cleaner energy sources. This strategic move is aimed at cutting down CO2 emissions inherent in their logistics operations. Complementing this, there's a noted increase in the usage of Compressed Natural Gas (CNG) and electric vehicles, which aligns with global environmental goals and demonstrates a modern approach to corporate responsibility in reducing greenhouse gases. These actions collectively signify the company's dedication to sustainable logistics and its role in fostering a healthier planet.

Empowerment through Enterprise: The Swabhimaan Story The Swabhimaan network stands as a beacon of empowerment, fostering entrepreneurial spirit among more than 1,600 women across India. This initiative transcends mere business, as it contributes significantly to the socio-economic fabric by generating business worth over INR 80 million. Spreading its impact over 14 states, the network not only nurtures individual relationships with these women entrepreneurs but also cultivates a sense of self-worth and community. Through this platform, these businesswomen gain financial independence and become vital contributors to their local economies, enhancing the overall prosperity of their regions. The Swabhimaan network is a shining example of how inclusive growth and gender equality can be effectively achieved through conscious corporate outreach and support.

Building Foundations: A Decade of Supplier Partnership Our supplier network is the cornerstone of our operations, encompassing over 4,500 diverse suppliers who are integral to our supply chain. This vast network is underpinned by relationships that are not only extensive but also enduring. Remarkably, more than 3,000 of these suppliers have been with us for over a decade. Such long-term associations hig5hlight the trust and mutual growth we foster, providing a stable and reliable base from which we can innovate and expand. Our commitment to these partnerships is reflected in the consistency and quality of our products and services. The longevity of these relationships speaks volumes about our collaborative approach and dedication to mutual success.

Fostering Collaborative Growth with Cutting-Edge Tech: The company is at the forefront of incorporating technology to enhance its partner relationships, ensuring that growth and efficiency go hand in hand. They have introduced systems for simplification and consolidation, making the management of operations more streamlined and effective. By integrating marketing and consumer insights, they enable partners to make informed decisions that resonate with market demands. Furthermore, the launch of the 'Nesmitra' application marks a significant stride in autonomy, allowing retailers to place orders directly and manage their inventories with greater agility. This digital empowerment reflects the company's dedication to modernizing traditional supply chains and nurturing relationships through innovative solutions. These technological advancements exemplify the company's pursuit of building a synergistic ecosystem where each stakeholder is equipped with the tools for success.

A Decade of Sales Success: Scaling New Heights in the Domestic Market: Starting from 84 billion INR in 2013, there has been a consistent upward trend, with only a slight dip in 2015. This setback was quickly overcome, with a remarkable recovery to 88 billion INR in 2016, reflecting resilience and a successful turnaround strategy. The upward trajectory continued, culminating in 161 billion INR in 2022, marked by a notable 14.8% growth rate. The last two reported years have been particularly impressive. The 9-month (9M) figures show a significant year-on-year increase, with sales reaching 139 billion INR in 9M 2023 from 120 billion INR in 9M 2022, equating to over 15% growth.

Strengthening Ties: Celebrating Distributor Loyalty: Our network is both expansive and experienced, with a remarkable total of more than 2,000 distributors. Highlighting our commitment to nurturing long-term partnerships, nearly 470 of these distributors have been part of our journey for over a decade, reflecting mutual growth and trust. Furthermore, the enduring loyalty is showcased by approximately 360 distributors who have surpassed a 20-year milestone with us, a testament to the lasting bonds and deep-seated trust we have cultivated.

Consistent Upward Trajectory in Product Volume Sales: The company has experienced a steady increase in product volume sales over the last five years. Starting from 424,000 tonnes in 2018 to 550,000 tonnes in 2022. This progression demonstrates a CAGR of 6.7% from 2018 to 2022, showcasing the company's ability to expand its market share and product reach consistently. Furthermore, the 9-month comparison between 2022 and 2023 illustrates the company's growth momentum, with a rise from 423,000 tonnes to 430,000 tonnes.

Value Growth: A Story of Consistent Advancement: The period between 2018 to 2024 witnessed the company's sales rising from 105 billion INR to 161 billion INR. The steady climb in sales value is punctuated by an impressive CAGR of 11.3%, signaling strong performance and strategic market expansion. Additionally, the 9-month (9M) comparison between 2022 and 2023 further emphasizes the company's robust growth, with sales scaling from 120 billion INR to 139 billion INR. The consistency in growth, reflected in the 15% increase YOY, showcases the company's ability to not only maintain but also enhance its market presence and value proposition in a competitive landscape.

Urban Growth Surge: Nestlé India's Rising Graph: In Mega Cities, there has been a steady increase in sales, as evidenced by the 3-year Compound Annual Growth Rate (CAGR) of 15.4%.. On the other hand, sales in Metro areas have experienced a more pronounced surge, reflected by an even higher 3-year CAGR of 21.0%. The data from Q4 2021 to Q3 2023 suggests that Nestlé India has successfully expanded its footprint and increased its market penetration.

Diverse Growth Across the Urban-Rural Divide: Remarkably, the most significant growth is seen in 'Villages', where a high CAGR of 26.6% has been attained. This substantial growth in rural areas signifies a successful expansion into less urbanized markets, likely due to tailored marketing strategies and product offerings that resonate with rural consumers. The overall picture painted by these metrics is one of a balanced growth strategy that leverages both urban sophistication and rural outreach, highlighting Nestlé India's adaptive approach in catering to the diverse Indian market.

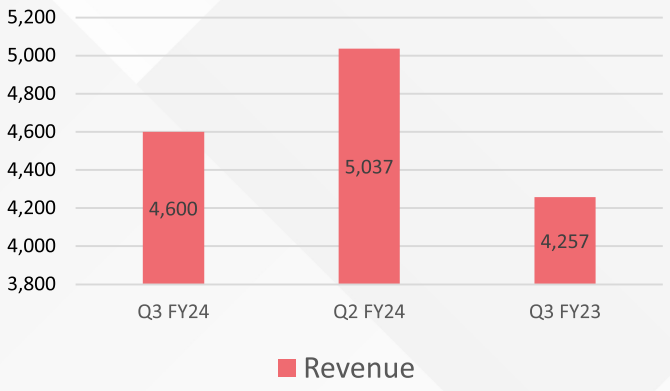
Robust Growth Across the Board: Milk Products and Nutrition lead the pack with a substantial 40.5% contribution to sales and a growth rate of 15.3%. This is followed closely by Prepared Dishes and Cooking Aids, which have contributed 31.6% to overall sales and have grown by 10.7%. The segment, which includes products like NESCAFÉ, has shown an exceptional growth rate of 30%, indicating a strong revival and growing consumer demand. The Confectionery segment, has also performed well with a 16.8% sales contribution and a 21.4% growth. Lastly, Powdered and Liquid Beverages have made a solid 11.1% sales contribution, achieving an impressive 18.6% growth.

Expansive Growth: Nestlé's Rural Market Penetration: In villages with populations over 2,000, coverage has grown from 40,739 in 2020 to 107,844 by the 9-month mark in 2023. Overall, total village coverage surged from 68,578 in 2020 to 191,395 by 9M 2023. Nestlé's ambition is to reach 120,000 villages by 2024, indicating a strategic focus on rural markets to drive future growth.

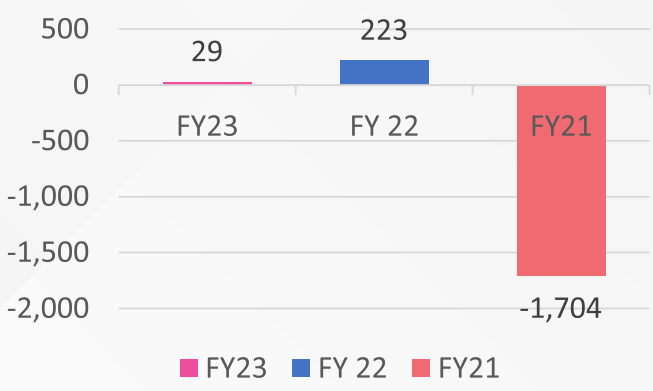
Amplifying Distribution Reach: The company has expanded its distribution touchpoints considerably from 2020 to the 9-month mark in 2023. Wholesale hubs have grown from 3,301 to 8,013, re-distributors from 6,901 to 8,218, and cash distributors from 685 to 835. This strategic enhancement in distribution infrastructure is crucial to Nestlé's deeper market penetration, ensuring their products are readily available across the diverse rural & urban landscape.

Nestlé's Strategic Mastery Over Cost and Profit Hurdles: Nestlé confronts rising costs across its commodity spectrum, with notable increases in milk (60%), skimmed milk powder (72%), edible oils (89%), wheat (31%), green coffee (47%), and packaging (25%). Despite these pressures, the company has successfully navigated the financial turbulence, as evidenced by a steady Compound Annual Growth Rate (CAGR) of 10.4% in net profit from 2018 to 2022, culminating in a significant net profit upswing to 23.4 billion INR in the first nine months of 2023. This resilience underscores Nestlé's adept cost management and sustained profitability in a challenging economic landscape.

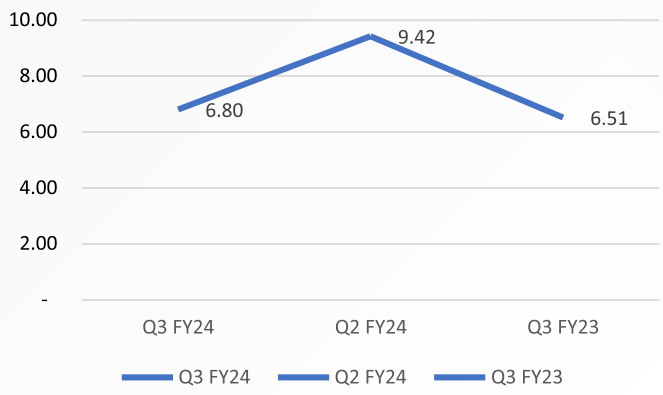
Revenue (In Cr)



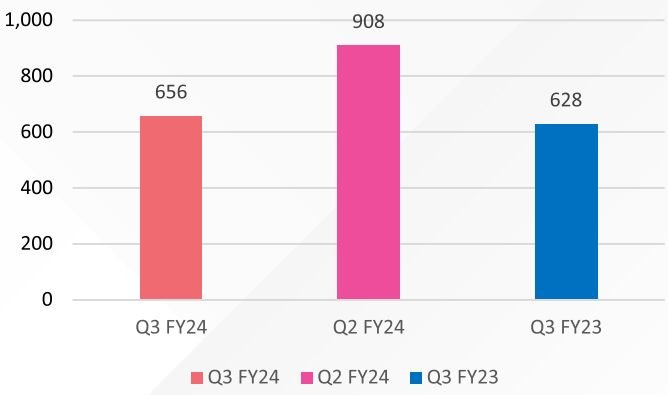
Cashflow (In Cr)



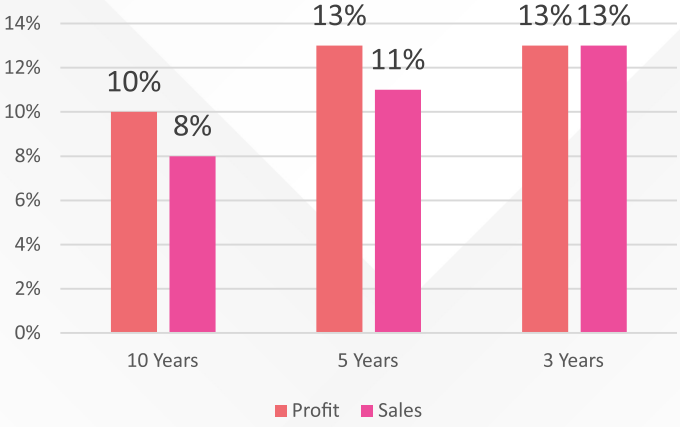
EPS



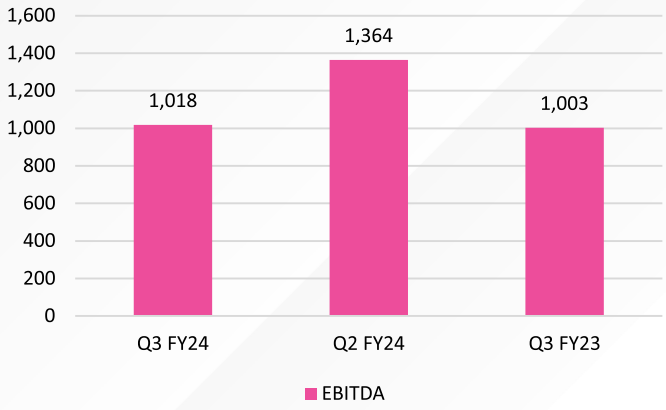
PAT (In Cr)



Compounded Growth (In %)



EBITDA (In Cr)



Technical Outlook



The chart for Nestle India Ltd. on a weekly timeframe shows a consistent uptrend within a rising channel pattern. There have been notable pullbacks, represented by rectangles, followed by recoveries. Volume spikes accompany some price movements. Overall, the trend is bullish with higher highs and higher lows over the observed period, indicating a strong market for Nestle India shares during this time.

The Simple Moving Averages (SMA) and Exponential Moving Averages (EMA) for Nestle India Ltd are presented for various periods. Both SMA and EMA values increase with shorter time frames, indicating an uptrend.

The Relative Strength Index (RSI) shows values of 56.18 on a daily basis and 62.61 weekly, suggesting a moderate to strong price momentum with neither overbought nor oversold conditions indicated.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	2586.8	2586.2
10	2571.8	2579.7
20	2576.7	2571.9
50	2533.2	2549.2
100	2520.8	2502.8
200	2398.1	24001.1

Pivot Levels : FIBONACCI		
R1 2624.63	Pivot 2603.57	S1 2564.53
R2 2663.67		S2 2543.47
R3 2684.73		S3 2504.43

	Daily	Weekly
Relative Strength Index (RSI)	56.18	62.61

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