

Estimate changes	↔
TP change	↔
Rating change	↔

**CMP: INR17,086 TP: INR18,300 (+7%) Neutral**

## Result in line; RM inflation being witnessed

- NEST delivered an in line set of 1QCY21 numbers, with overall sales growth of 8.6% (v/s our estimate of 8.5%) and domestic sales increasing in double-digits (10.2%).
- While gross margin was in line, EBITDA and PAT were 5.2% and 3% ahead of our estimates, respectively. The management did call out sequential inflation in commodity costs, which may affect operating margin ahead.
- While longer term opportunities are attractive, valuations of 59x CY22E EPS are expensive. We maintain our **Neutral** rating.

Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USDb)	1647.4 / 22
52-Week Range (INR)	18821 / 15104
1, 6, 12 Rel. Per (%)	8/-13/-50
12M Avg Val (INR M)	2513

### Financials & Valuations (INR b)

Y/E Dec	2020	2021E	2022E	2023E
Sales	133.5	150.0	172.7	195.5
Sales Gr. (%)	7.9	12.4	15.1	13.2
EBITDA	32.2	36.8	42.3	49.4
Margin (%)	24.1	24.5	24.5	25.3
Adj. PAT	21.0	24.0	28.1	34.1
Adj. EPS (INR)	217.4	249.2	291.9	353.2
EPS Gr. (%)	7.6	14.6	17.1	21.0
BV/Sh.(INR)	209.4	222.0	242.2	303.4

### Ratios

RoE (%)	106.5	115.5	125.8	129.5
RoCE (%)	110.2	120.6	130.6	134.1
Payout (%)	92.0	94.3	92.5	82.1

### Valuations

P/E (x)	78.6	68.6	58.5	48.4
P/BV (x)	81.6	77.0	70.6	56.3
EV/EBITDA (x)	50.2	43.8	38.1	32.5
Div. Yield (%)	1.2	1.4	1.6	1.7

### Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	62.8	62.8	62.8
DII	7.8	8.9	9.0
FII	12.8	11.5	12.1
Others	16.7	16.8	16.2

FII Includes depository receipts



## Momentum in domestic sales growth continues

**Net sales grew 8.6% YoY to INR36.1b** (in line). Domestic sales grew 10.2% YoY, driven by volume and mix, whereas exports declined 12.9% YoY due to lower exports to affiliates. **We peg 1QCY21 volume growth at 5.5%.**

EBITDA/PBT grew 16.2%/14.2% YoY to INR9.3b/INR8.1b (v/s our estimate of INR8.8b/ INR7.8b). Adjusted PAT grew 13.1% YoY to INR6b (v/s our expectation of INR5.8b).

- Gross margin expanded 220bp YoY to 58.5% due to lower commodity prices, particularly milk and its derivatives. Decreased staff costs, as a percentage of sales (-60bp YoY to 10.2%), and higher other expenses (+110bp YoY to 22.6%) led to a 170bp EBITDA margin expansion to 25.8% (v/s our estimate of 24.5%) in 1QCY21. Higher other expenses were mainly due to higher advertising and sales promotion spends.
- Other income decreased by 30.8% YoY during 1QCY21 due to lower yields.
- The company has declared an interim dividend of INR25 per share amounting to INR2.4b.

## Highlights from the management commentary

- **Key products, boosted by in-home consumption, posted double-digit growth.**
- Demand in the 'Out of Home' channel improved further in 1QCY21, but continues to be impacted by COVID-19.
- e-commerce channel grew 66% and contributed 3.8% of domestic sales.
- Recently, the company witnessed headwinds in commodity and packaging materials costs.
- The management achieved plastic neutrality across all brands in CY20.

## Valuation and view

- Continuing its impressive trend of recent years, NEST posted double-digit domestic sales growth in 1QCY21. As highlighted in our [annual report note](#) released last week, even excluding the revival from the CY15 Maggi crisis in CY16, topline and earnings growth have been impressive in the subsequent four years.
- Performance has been good all round and primacy has been given to volume-led sales growth, with ad spends consistently at elevated levels, even in CY20, v/s peers who reduced ad spends sharply.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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- While the ongoing partial lockdowns could boost near-term sales, the long-term narrative for NEST's revenue and earnings growth remains even more attractive. Successful implementation of its growth strategy in recent years is a positive. The Packaged Foods segment in India offers immense growth opportunities. This is particularly true for a company with a strong pedigree and distribution strength.
- Valuations at 59x CY22E EPS are expensive and offer limited upside from a one-year perspective. We value the company at 60x Mar'23E EPS to arrive at our TP of INR18,300 per share. Maintain **Neutral**.

## Quarterly performance

(INR b)

Y/E December	CY20				CY21				CY20	CY21E	1Q Variance	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			CY21E	(%)
<b>Net Sales</b>	<b>33.3</b>	<b>30.5</b>	<b>35.4</b>	<b>34.3</b>	<b>36.1</b>	<b>35.4</b>	<b>39.2</b>	<b>39.3</b>	<b>133.5</b>	<b>150.0</b>	<b>36.1</b>	<b>0.1</b>
YoY Change (%)	10.7	1.7	10.1	9.0	8.6	16.0	10.8	14.5	7.9	12.4	8.5	
COGS	14.5	13.3	14.8	14.0	15.0	15.0	16.4	16.6	56.7	62.9	15.0	
<b>Gross Profit</b>	<b>18.7</b>	<b>17.2</b>	<b>20.6</b>	<b>20.3</b>	<b>21.1</b>	<b>20.4</b>	<b>22.8</b>	<b>22.7</b>	<b>76.8</b>	<b>87.1</b>	<b>21.1</b>	
Margin (%)	56.3	56.3	58.1	59.1	58.5	57.7	58.1	57.9	57.5	58.0	58.5	
Operating Exp.	10.7	9.6	11.6	12.7	11.8	11.7	13.1	13.7	44.6	50.3	12.3	
<b>EBITDA</b>	<b>8.0</b>	<b>7.6</b>	<b>9.0</b>	<b>7.6</b>	<b>9.3</b>	<b>8.7</b>	<b>9.7</b>	<b>9.1</b>	<b>32.2</b>	<b>36.8</b>	<b>8.8</b>	<b>5.2</b>
Margin (%)	24.1	24.9	25.4	22.1	25.8	24.5	24.8	23.1	24.1	24.5	24.5	
YoY Growth (%)	4.7	5.0	16.1	9.9	16.2	14.3	8.2	19.7	10.7	14.3	10.4	
Depreciation	0.9	0.9	0.9	1.0	0.9	1.0	1.0	1.0	3.7	3.9	1.0	
Interest	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	1.6	2.0	0.4	
Other income	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	1.5	1.3	0.4	
<b>PBT</b>	<b>7.1</b>	<b>6.6</b>	<b>8.0</b>	<b>6.5</b>	<b>8.1</b>	<b>7.5</b>	<b>8.6</b>	<b>7.9</b>	<b>28.3</b>	<b>32.1</b>	<b>7.8</b>	<b>3.8</b>
Tax	1.8	1.7	2.0	1.9	2.1	1.9	2.2	1.9	7.3	8.1	2.0	
Rate (%)	25.1	25.0	24.9	28.7	25.8	25.2	25.2	24.6	25.8	25.2	25.2	
<b>Adjusted PAT</b>	<b>5.3</b>	<b>5.0</b>	<b>6.0</b>	<b>4.6</b>	<b>6.0</b>	<b>5.6</b>	<b>6.4</b>	<b>5.9</b>	<b>21.0</b>	<b>24.0</b>	<b>5.8</b>	<b>3.0</b>
YoY Change (%)	12.3	11.1	(0.1)	(0.9)	13.1	13.3	6.8	28.1	7.6	14.6	9.8	

E: MOFSL estimates

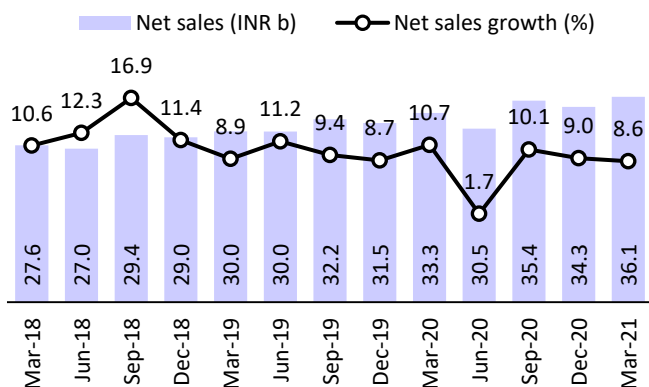
## Key performance Indicators

Y/E December	CY20				CY21	
	1Q	2Q	3Q	4Q	1Q	
<b>Average growth over the last two-years (%)</b>						
Sales	9.8	6.4	9.8	8.8	9.7	
EBITDA	6.1	6.8	10.2	11.1	10.4	
PAT	10.2	9.5	15.1	7.3	12.7	
<b>% of Sales</b>						
COGS	43.7	43.7	41.9	40.9	41.5	
Employee Expenses	10.2	9.9	9.7	10.1	115.6	
Other Expenses	24.0	24.6	28.1	23.0	68.4	
Depreciation	2.7	3.0	2.6	2.8	2.6	
<b>YoY change (%)</b>						
COGS	16.7	6.4	8.7	3.2	3.1	
Employee Expenses	18.0	17.5	14.8	25.0	2.7	
Other Expenses	1.2	-18.8	2.5	9.5	14.3	
Other Income	-41.5	-47.7	-38.9	-31.5	-30.8	
EBIT	5.4	6.0	18.2	11.1	17.9	

E: MOFSL estimates

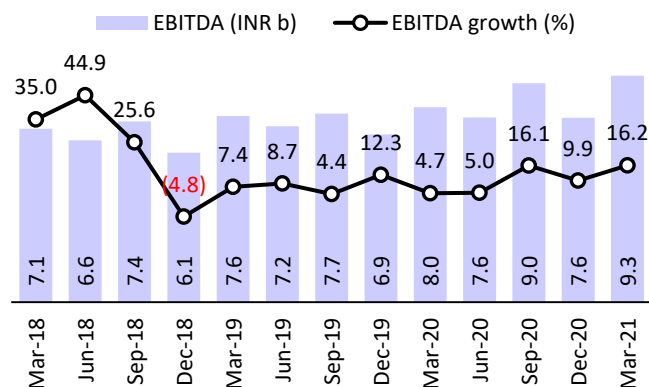
## Key exhibits

**Exhibit 1: Net sales grew 8.6% YoY to INR36.1b**



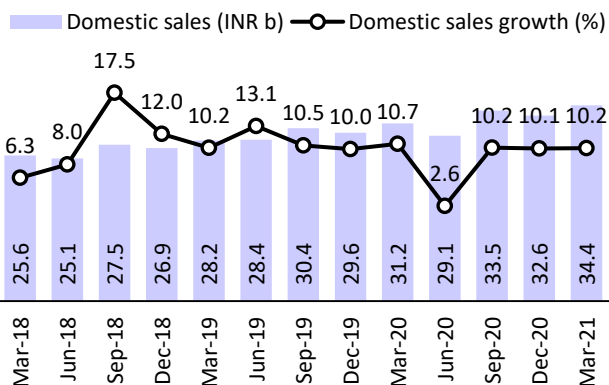
Source: Company, MOFSL

**Exhibit 2: EBITDA grew 16.2% YoY to INR9.3b**



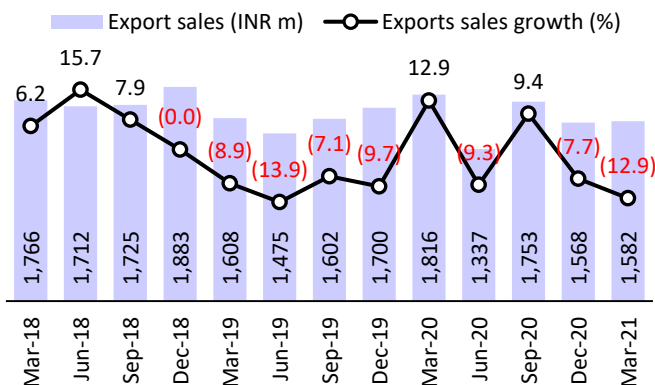
Source: Company, MOFSL

**Exhibit 3: Domestic sales grew 10.2% YoY to INR34.4b**



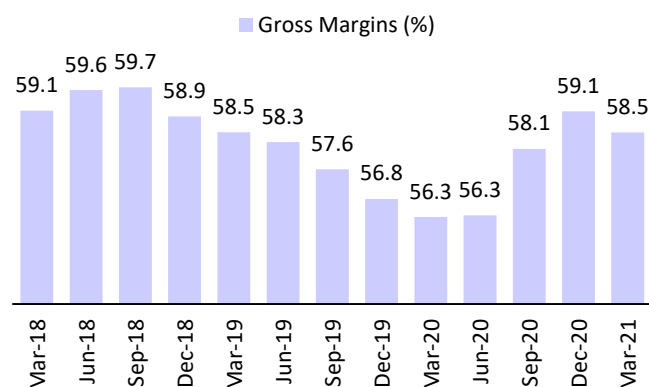
Source: Company, MOFSL

**Exhibit 4: Export sales decline 12.9% YoY to INR1.6b**



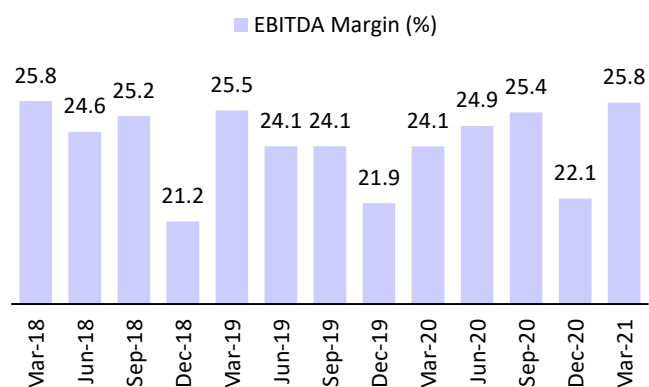
Source: Company, MOFSL

**Exhibit 5: Gross margin expands by 220bp YoY to 58.5%**



Source: Company, MOFSL

**Exhibit 6: EBITDA margin expands by 170bp YoY to 25.8%**



Source: Company, MOFSL

## Valuation and view

### What has happened in the last 10 years?

- After weak growth on all fronts in the first half of the decade, NEST has done very well in the second half, and particularly well in the past three years.
- Decadal performance has been modest, with sales/EBITDA/PAT CAGR in the 8-10% range during CY10-20.
- The past five years have witnessed accelerated growth of ~10% sales CAGR, with 13%/14% EBITDA/PAT CAGR, despite several macro disruptions – demonetization, GST implementation, and the COVID-19 pandemic – which affected the FMCG sector.
- Beginning with damage control post the *Maggi* crisis in CY15, the management initiated a series of measures, including but not limited to: a) focusing back on volume-led double-digit sales growth, b) launching over 80 new products since CY16, c) backing up new launches with a sharp increase in ad spends, and d) focusing on distribution expansion more recently.

### Our view on the stock

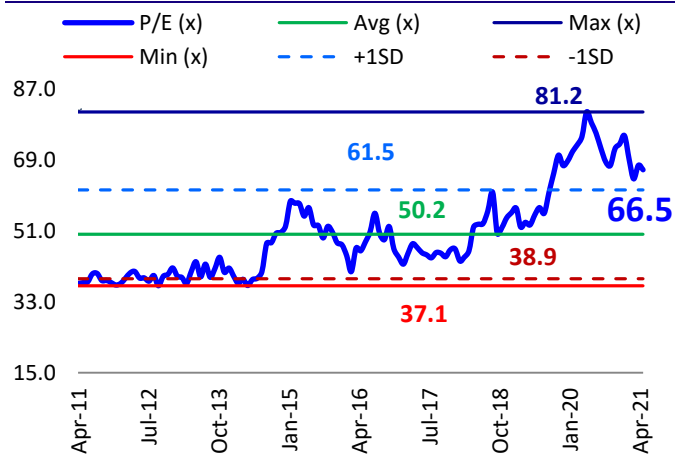
- Continuing its impressive trend of recent years, NEST posted double-digit domestic sales growth in 1QCY21. As highlighted in our [annual report note](#) released last week, even excluding the revival from the CY15 Maggi crisis in CY16, topline and earnings growth have been impressive in the subsequent four years.
- Performance has been good all round and primacy has been given to volume-led sales growth, with ad spends consistently at elevated levels, even in CY20, v/s peers who reduced ad spends sharply.
- While the ongoing partial lockdowns could boost near-term sales, the long-term narrative for NEST's revenue and earnings growth remains even more attractive. Successful implementation of its growth strategy in recent years is a positive. The Packaged Foods segment in India offers immense growth opportunities. This is particularly true for a company with a strong pedigree and distribution strength.
- Valuations at 59x CY22E EPS are expensive and offer limited upside from a one-year perspective. We value the company at 60x Mar'23E EPS to arrive at our TP of INR18,300 per share. Maintain **Neutral**.



Exhibit 7: There are no material changes to our CY21E/CY22E/CY23E estimates

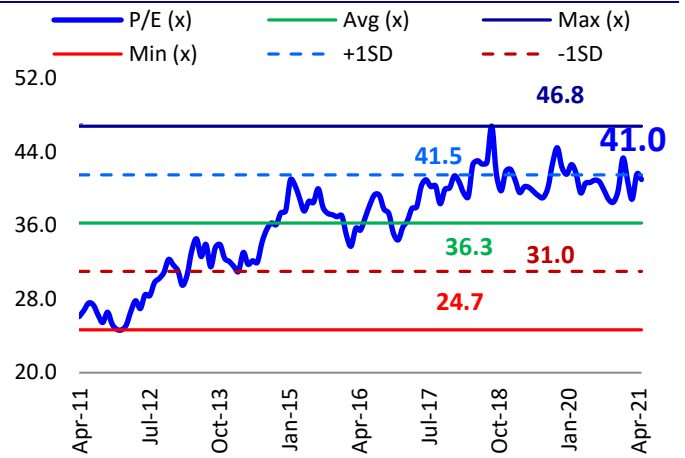
(INR b)	New			Old			Change (%)		
	CY21E	CY22E	CY23E	CY21E	CY22E	CY23E	CY21E	CY22E	CY23E
Net Sales	150.0	172.7	195.5	150.0	172.7	195.5	0.0	0.0	0.0
EBITDA	36.8	42.3	49.4	36.8	42.3	49.4	0.0	0.0	0.0
Adjusted PAT	24.0	28.1	34.1	24.5	28.4	34.4	-2.1	-0.9	-0.9

**Exhibit 8: NEST's P/E (x)**



Source: Company, MOFSL

**Exhibit 9: Consumer sector P/E (x)**



Source: Company, MOFSL

## Financials and valuations

Income Statement								(INR b)
Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
<b>Net Sales</b>	<b>91.4</b>	<b>100.1</b>	<b>112.9</b>	<b>123.7</b>	<b>133.5</b>	<b>150.0</b>	<b>172.7</b>	<b>195.5</b>
Change (%)	11.8	9.5	12.8	9.5	7.9	12.4	15.1	13.2
<b>Gross Profit</b>	<b>52.6</b>	<b>56.8</b>	<b>67.0</b>	<b>71.4</b>	<b>76.8</b>	<b>87.1</b>	<b>100.8</b>	<b>115.9</b>
Margin (%)	57.5	56.8	59.4	57.8	57.5	58.0	58.4	59.3
Other Expenditure	32.3	34.6	39.7	42.4	44.6	50.3	58.6	66.5
<b>EBITDA</b>	<b>20.3</b>	<b>22.2</b>	<b>27.3</b>	<b>29.1</b>	<b>32.2</b>	<b>36.8</b>	<b>42.3</b>	<b>49.4</b>
Change (%)	23.3	9.4	23.0	6.3	10.7	14.3	14.9	16.9
Margin (%)	22.2	22.2	24.2	23.5	24.1	24.5	24.5	25.3
Depreciation	3.5	3.4	3.4	3.7	3.7	3.9	4.4	5.1
Int. and Fin. Ch.	0.9	0.9	1.1	1.3	1.6	2.0	2.0	2.3
Other Inc. - Rec.	1.5	1.8	2.6	2.5	1.5	1.3	1.9	3.5
<b>PBT</b>	<b>17.4</b>	<b>19.6</b>	<b>25.4</b>	<b>26.5</b>	<b>28.3</b>	<b>32.1</b>	<b>37.6</b>	<b>45.5</b>
Change (%)	23.5	13.1	29.5	4.3	6.6	13.6	17.1	21.0
Margin (%)	19.0	19.6	22.5	21.4	21.2	21.4	21.8	23.3
Tax	5.4	6.1	8.2	7.1	7.3	8.1	9.5	11.5
Tax Rate (%)	31.3	31.3	32.3	26.6	25.8	25.2	25.2	25.2
<b>Adjusted PAT</b>	<b>11.9</b>	<b>13.5</b>	<b>17.2</b>	<b>19.5</b>	<b>21.0</b>	<b>24.0</b>	<b>28.1</b>	<b>34.1</b>
Change (%)	3.2	13.2	27.5	13.1	7.6	14.6	17.1	21.0
Margin (%)	13.0	13.5	15.2	15.7	15.7	16.0	16.3	17.4
Non-rec. (Exp.)/Inc.	1.9	1.2	1.1	0.2	0.1	0.2	0.2	0.2
<b>Reported PAT</b>	<b>10.0</b>	<b>12.3</b>	<b>16.1</b>	<b>19.2</b>	<b>20.8</b>	<b>23.9</b>	<b>28.0</b>	<b>33.9</b>
<b>Balance Sheet</b>								<b>(INR b)</b>
Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Reserves	31.9	33.2	35.8	18.2	19.2	20.4	22.4	28.3
<b>Net Worth</b>	<b>32.8</b>	<b>34.2</b>	<b>36.7</b>	<b>19.2</b>	<b>20.2</b>	<b>21.4</b>	<b>23.3</b>	<b>29.3</b>
Loans	0.3	0.4	0.4	0.5	0.3	0.3	0.3	0.3
<b>Capital Employed</b>	<b>33.2</b>	<b>34.6</b>	<b>37.1</b>	<b>19.7</b>	<b>20.5</b>	<b>21.8</b>	<b>23.7</b>	<b>29.6</b>
Gross Block	31.0	33.6	34.9	34.9	36.5	42.5	49.5	56.5
Less: Accum. Depn.	3.6	7.4	10.8	13.8	16.8	20.7	25.2	30.2
<b>Net Fixed Assets</b>	<b>27.3</b>	<b>26.2</b>	<b>24.0</b>	<b>21.1</b>	<b>19.7</b>	<b>21.7</b>	<b>24.3</b>	<b>26.2</b>
Capital WIP	1.9	0.9	1.1	1.4	6.4	6.4	6.4	6.4
Investments	17.6	19.8	26.6	18.3	15.5	17.2	18.3	19.4
Current	12.8	13.9	19.3	10.1	7.2	8.7	9.5	10.5
Non-current	4.7	5.9	7.3	8.2	8.3	8.6	8.7	8.9
<b>Curr. Assets, L&amp;A</b>	<b>21.4</b>	<b>26.7</b>	<b>29.2</b>	<b>30.9</b>	<b>37.2</b>	<b>38.5</b>	<b>43.9</b>	<b>50.9</b>
Inventory	9.4	9.0	9.7	12.8	14.2	14.2	17.0	16.6
Account Receivables	1.0	0.9	1.2	1.2	1.6	1.2	1.4	1.6
Cash and Bank Balance	8.8	14.6	16.1	13.1	17.7	18.7	20.7	24.4
Others	2.2	2.2	2.2	3.7	3.7	4.3	4.8	8.4
<b>Curr. Liab. and Prov.</b>	<b>33.4</b>	<b>37.8</b>	<b>43.2</b>	<b>51.9</b>	<b>58.5</b>	<b>62.3</b>	<b>69.3</b>	<b>73.5</b>
Account Payables	8.0	9.8	12.4	14.9	15.2	17.1	19.5	21.6
Other Liabilities	5.1	4.2	4.6	7.0	9.5	8.9	10.3	7.8
Provisions	20.3	23.8	26.2	29.9	33.7	36.2	39.5	44.2
<b>Net Curr. Assets</b>	<b>-12.0</b>	<b>-11.1</b>	<b>-14.0</b>	<b>-21.0</b>	<b>-21.3</b>	<b>-23.8</b>	<b>-25.5</b>	<b>-22.6</b>
Def. Tax Liability	-1.6	-1.2	-0.6	-0.1	0.2	0.2	0.2	0.2
<b>Appl. of Funds</b>	<b>33.2</b>	<b>34.6</b>	<b>37.1</b>	<b>19.7</b>	<b>20.5</b>	<b>21.8</b>	<b>23.7</b>	<b>29.6</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>123.7</b>	<b>140.0</b>	<b>178.6</b>	<b>202.0</b>	<b>217.4</b>	<b>249.2</b>	<b>291.9</b>	<b>353.2</b>
Cash EPS	160.4	175.5	213.4	240.4	255.8	290.1	337.8	405.9
BV/Share	340.4	354.8	381.0	199.0	209.4	222.0	242.2	303.4
DPS	63.0	86.0	115.0	342.0	200.0	235.0	270.0	290.0
Payout (%)	50.9	61.4	64.4	169.3	92.0	94.3	92.5	82.1
<b>Valuation (x)</b>								
P/E	138.2	122.0	95.7	84.6	78.6	68.6	58.5	48.4
Cash P/E	106.6	97.4	80.1	71.1	66.8	58.9	50.6	42.1
EV/Sales	17.7	16.1	14.2	13.1	12.1	10.7	9.3	8.2
EV/EBITDA	79.9	72.6	58.7	55.6	50.2	43.8	38.1	32.5
P/BV	50.2	48.2	44.8	85.9	81.6	77.0	70.6	56.3
Dividend Yield (%)	0.4	0.5	0.7	2.0	1.2	1.4	1.6	1.7
<b>Return Ratios (%)</b>								
RoE	39.1	40.3	48.5	69.7	106.5	115.5	125.8	129.5
RoCE	40.8	41.7	50.2	71.9	110.2	120.6	130.6	134.1
<b>Working Capital Ratios</b>								
Debtor (Days)	3.8	3.2	4.1	3.7	4.5	3.0	3.0	3.0
Asset Turnover (x)	2.8	2.8	3.1	4.3	6.6	7.2	7.7	7.4
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

Y/E December	CY16	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
<b>(INR b)</b>								
OP/(loss) before Tax	15.5	18.4	24.3	26.7	28.1	32.8	37.8	44.3
Int./Div. Received	1.4	1.4	2.5	2.4	1.4	1.3	1.9	3.5
Depn. and Amort.	3.5	3.4	3.4	3.7	3.7	3.9	4.4	5.1
Interest Paid	0.0	0.0	0.0	0.0	0.2	2.0	2.0	2.3
Direct Taxes Paid	5.0	6.0	8.8	6.7	7.0	8.1	9.5	11.5
Incr. in WC	2.0	3.7	4.1	1.6	1.0	3.6	3.6	0.8
<b>CF from Operations</b>	<b>14.7</b>	<b>18.2</b>	<b>20.5</b>	<b>23.0</b>	<b>24.5</b>	<b>32.9</b>	<b>36.6</b>	<b>37.5</b>
Others	-1.5	0.6	-2.6	11.7	4.4	0.4	1.5	4.5
Incr. in FA	1.1	2.0	1.6	1.5	4.7	6.0	7.0	7.0
<b>Free Cash Flow</b>	<b>13.5</b>	<b>16.2</b>	<b>18.9</b>	<b>21.4</b>	<b>19.8</b>	<b>26.9</b>	<b>29.6</b>	<b>30.5</b>
Pur. of Investments	1.5	1.1	1.6	0.2	0.0	1.7	1.0	1.1
<b>CF from Invest.</b>	<b>-4.2</b>	<b>-2.4</b>	<b>-5.8</b>	<b>10.0</b>	<b>-0.4</b>	<b>-7.3</b>	<b>-6.6</b>	<b>-3.6</b>
Incr. in Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	5.6	8.3	10.9	29.5	18.9	22.7	26.0	28.0
Others	-1.0	-1.7	-2.3	-6.5	-0.7	-2.0	-2.0	-2.3
<b>CF from Fin. Activity</b>	<b>-6.7</b>	<b>-10.0</b>	<b>-13.2</b>	<b>-36.0</b>	<b>-19.6</b>	<b>-24.6</b>	<b>-28.1</b>	<b>-30.2</b>
<b>Incr./Decr. in Cash</b>	<b>3.8</b>	<b>5.8</b>	<b>1.5</b>	<b>-3.0</b>	<b>4.6</b>	<b>1.0</b>	<b>1.9</b>	<b>3.7</b>
Add: Opening Balance	5.0	8.8	14.6	16.1	13.1	17.7	18.7	20.7
<b>Closing Balance</b>	<b>8.8</b>	<b>14.6</b>	<b>16.1</b>	<b>13.1</b>	<b>17.7</b>	<b>18.7</b>	<b>20.7</b>	<b>24.4</b>

E: MOFSL estimates

**NOTES**



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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