

Estimate changes	↔
TP change	↔
Rating change	↔

CMP: INR19,378 TP: INR19,100 (-1%) Neutral

Healthy sales; material cost concerns persist

	NEST IN
Bloomberg Equity Shares (m)	96
M.Cap.(INRb)/(USD\$b)	1868.3 / 24.8
52-Week Range (INR)	20600 / 15435
1, 6, 12 Rel. Per (%)	-9/-15/-32
12M Avg Val (INR M)	1919

Financials & Valuations (INR b)

Y/E Dec	2021E	2022E	2023E
Sales	147.5	167.4	189.5
Sales Gr. (%)	10.5	13.5	13.2
EBITDA	36.2	40.8	46.5
Margin (%)	24.6	24.4	24.5
Adj. PAT	23.5	26.5	30.7
Adj. EPS (INR)	243.3	274.7	318.6
EPS Gr. (%)	11.9	12.9	16.0
BV/Sh.(INR)	216.2	219.2	245.9

Ratios

RoE (%)	114.3	126.2	137.0
RoCE (%)	119.9	131.7	142.7
Payout (%)	96.6	98.3	91.0

Valuations

P/E (x)	79.6	70.5	60.8
P/BV (x)	89.6	88.4	78.8
EV/EBITDA (x)	50.7	44.9	39.4
Div. Yield (%)	1.2	1.4	1.5

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	62.8	62.8	62.8
DII	7.9	8.0	8.8
FII	12.4	12.3	12.1
Others	16.9	17.0	16.4

FII Includes depository receipts

- Nestlé India (NEST) reported sales in line with our estimates. Growth of 9.6% in 3QCY21 on a base of 10.1% in 3QCY20 indicates a healthy demand trend.
- In a welcome new disclosure, the quarterly press release now has commentary on segmental growth, and growth for the quarter seems to be broad based across the four key segments.
- On a high EBITDA margin base, operating profit and PAT growth came in tepid at 5.9% and 3.2%, respectively, especially as material cost inflation led to the lowest gross margin in 17 quarters in 3QCY21. The press release indicated commodity costs pressures are likely to persist.
- Valuations at 60.8x CY23E EPS do not leave any room for any upside from a one-year perspective. We maintain our **Neutral** stance.

Sales in-line; margins better than expected

- **NEST reported net sales growth of 9.6% YoY to INR38.8b** (in-line). Domestic sales grew 10.1% YoY, driven by high-single-digit volume and mix growth; export sales grew 1.3% YoY during the quarter. We peg volume growth for the quarter at ~8%.
- **EBITDA / PBT / Adjusted PAT grew 5.9%/4.6%/3.2% YoY to INR9.5b/INR8.4b/INR6.2b (v/s our estimate of INR9.1b/INR7.8b/INR5.8b).**
- Gross margins contracted 240bp YoY to 55.7% on higher commodity prices, particularly edible oil and packaging materials, partly offset by better realizations.
- As a percentage of sales, lower staff costs (-40bp YoY to 10%) and other expenses (-110bp YoY to 21.2%) led to **EBITDA margin contraction of 90bp YoY to 24.5%** (est. 23.5%) in 3QCY21. Lower staff costs (as a percentage of sales) are favorable against the base quarter, which was impacted by the incentives offered to production manpower in light of COVID.
- 9MCY21 sales / EBITDA / adj. PAT grew 10.6%/10.5%/7.1% YoY to INR109.7b/INR27.2b/INR17.5b.
- **The board of directors has declared a second interim dividend of INR110 per share.** The first interim dividend of INR25 per share was paid in May'21.

Segmental highlights

- **Prepared Dishes and Cooking Aids:** Continuing momentum and improved availability helped achieve good growth despite the high base effect (build-up after 2QCY20). Maggi Noodles and Maggi Masala-ae-Magic posted healthy growth. On the other hand, Maggi Sauces saw somewhat muted growth due to decreased in-home consumption, a high base, and increased competitive intensity.
- **Milk Products and Nutrition:** The Toddler range (Ceregrow, Nangrow) and Milkmaid posted strong double-digit growth.

- **Confectionery:** Power brands KitKat, Munch, and Milkybar registered high double-digit growth, aided by media campaigns, attractive consumer promotions, and distribution drives.
- **Beverages:** Strong double-digit growth was seen in Nescafé Classic, led by increased penetration, visibility actions, and the sustained generation of demand input.

Key highlights from press release

- Nestlé India's ninth factory in Sanand has been built, equipped, and made up to standard entirely during the pandemic period. Over 60% of the factory workforce comprises women.
- **E-commerce:** The channel is expected to continue its growth journey, and NEST is gaining increasing traction in this space.
- **Organized trade:** A decrease in the pandemic intensity and an increase in vaccination coverage contributed to broad-based growth across the Food & Beverages category especially Coffee & Confectionery.
- **Out of Home (OOH):** The OOH channel is on the recovery path with the gradual opening up of hotels, restaurants, offices, and malls. There are signs of a return to pre-pandemic levels of business traction in some geographies, categories, and channels.
- **Exports:** Maggi Noodles and Polo have been introduced in the Middle East markets recently. Crunch Wafer has been introduced in ASEAN markets.
- **Commodity outlook:**
 - The price outlook for key commodities such as wheat, coffee, and edible oils remains firm to bullish. On the contrary, packaging material costs continue to increase amid supply constraints and rising fuel and transportation costs.
 - Input prices are expected to see a bullish trend both globally and (to some extent) locally.
 - Fresh milk prices are expected to remain firm with a continued increase in demand and rise in feed costs to farmers.
- A recent announcement saw import duties being scrapped on edible oils. If this continues next year, beyond Mar'22, it could have a positive impact with regard to muting food inflation pressures.

Valuation and view

- There is no material change to our CY22E and CY23E EPS forecasts.
- The long-term narratives for NEST's revenue and earnings growth are highly attractive. The Packaged Foods segment in India offers immense growth opportunities. This is particularly true for a company such as NEST, which has a strong pedigree and distribution strength. The successful implementation of its volume-led growth strategy in recent years provides confidence in execution as well.
- Valuations at 60.8x CY23E EPS are, however, expensive and do not offer any upside from a one-year perspective. We value the company at 60x CY23E EPS to arrive at our TP of INR19,100. We maintain our **Neutral** stance.

Quarterly performance

(INR b)

Y/E December	CY20				CY21				CY20	CY21E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Net Sales	33.3	30.5	35.4	34.3	36.1	34.8	38.8	37.8	133.5	147.5	38.5	0.8%
YoY Change (%)	10.7	1.7	10.1	9.0	8.6	14.0	9.6	10.0	7.9	10.5	8.8	
COGS	14.5	13.3	14.8	14.0	15.0	14.9	17.2	16.8	56.7	63.9	16.6	
Gross Profit	18.7	17.2	20.6	20.3	21.1	19.8	21.6	21.0	76.8	83.5	21.9	
Margin (%)	56.3	56.3	58.1	59.1	58.5	57.0	55.7	55.5	57.5	56.7	56.8	
Operating Exp	10.7	9.6	11.6	12.7	11.8	11.5	12.1	11.9	44.6	47.3	12.8	
EBITDA	8.0	7.6	9.0	7.6	9.3	8.3	9.5	9.1	32.2	36.2	9.1	5.2%
Margins (%)	24.1	24.9	25.4	22.1	25.8	24.0	24.5	24.0	24.1	24.6	23.5	
YoY Growth (%)	4.7	5.0	16.1	9.9	16.2	9.9	5.9	19.7	10.7	12.7	0.7	
Depreciation	0.9	0.9	0.9	1.0	0.9	1.0	1.0	1.1	3.7	4.0	1.0	
Interest	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	1.6	2.1	0.5	
Other income	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	1.5	1.2	0.3	
PBT	7.1	6.6	8.0	6.5	8.1	7.2	8.4	7.7	28.3	31.4	7.8	7.3%
Tax	1.8	1.7	2.0	1.9	2.1	1.9	2.2	1.7	7.3	7.9	2.0	
Rate (%)	25.1	25.0	24.9	28.7	25.8	26.8	25.9	22.4	25.8	25.2	25.2	
Adjusted PAT	5.3	5.0	6.0	4.6	6.0	5.2	6.2	6.0	21.0	23.5	5.8	6.3%
YoY Change (%)	12.3	11.1	(0.1)	(0.9)	13.1	5.4	3.2	28.9	7.6	11.9	(3.0)	

E: MOFSL Estimates

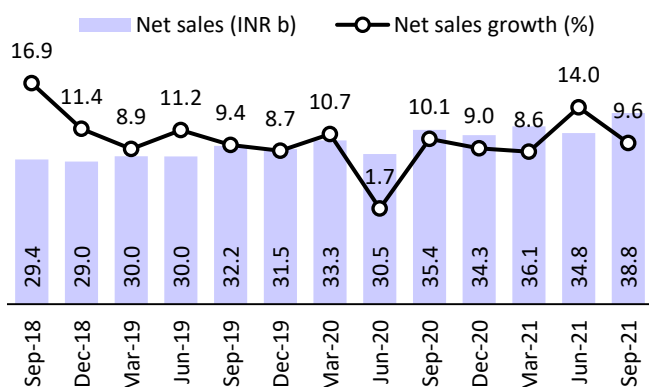
Key performance indicators

Y/E December	CY20				CY21		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
2Y average growth (%)							
Sales	9.8	6.4	9.8	8.8	9.7	7.8	9.9
EBITDA	6.1	6.8	10.2	11.1	10.4	7.5	11.0
PAT	10.2	9.5	15.1	7.3	12.7	8.3	1.5
% of Sales							
COGS	43.7	43.7	41.9	40.9	41.5	43.0	44.3
Employee Expenses	10.2	9.9	9.7	10.1	10.2	10.9	10.0
Other Expenses	24.0	24.6	28.1	23.0	22.6	22.1	21.2
Depreciation	2.7	3.0	2.6	2.8	2.6	2.7	2.5
YoY change (%)							
COGS	16.7	6.4	8.7	3.2	3.1	12.2	15.9
Employee Expenses	18.0	17.5	14.8	25.0	2.7	2.4	5.0
Other Expenses	1.2	-18.8	2.5	9.5	14.3	30.3	4.2
Other Income	-41.5	-47.7	-38.9	-31.5	-30.8	-22.3	-2.3
EBIT	5.4	6.0	18.2	11.1	17.9	10.9	6.0

E: MOFSL Estimates

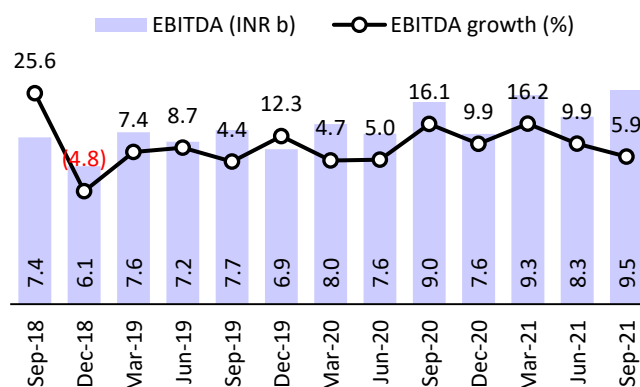
Key exhibits

Exhibit 1: Net sales up 9.6% YoY to INR38.8b



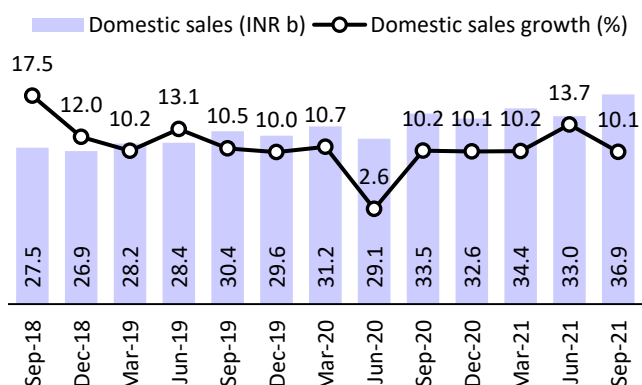
Source: Company, MOFSL

Exhibit 2: EBITDA grows 5.9% YoY to INR9.5b



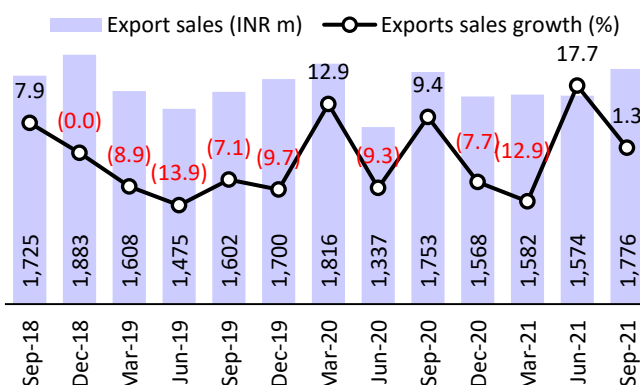
Source: Company, MOFSL

Exhibit 3: Domestic sales increase 10.1% YoY to INR36.9b



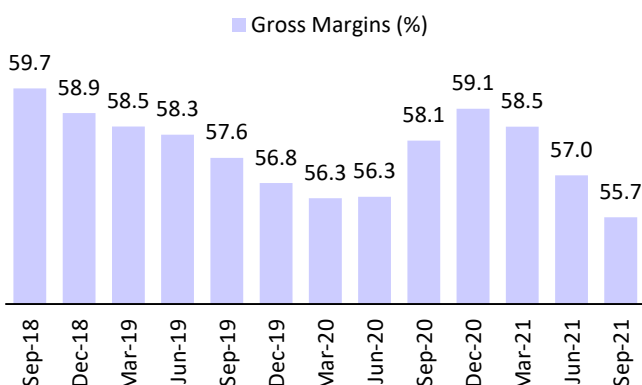
Source: Company, MOFSL

Exhibit 4: Export sales up 1.3% YoY to INR1.8b



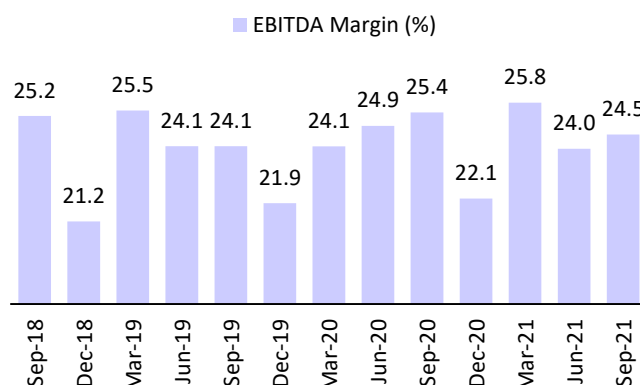
Source: Company, MOFSL

Exhibit 5: Gross margin contracts 240bp YoY to 55.7%



Source: Company, MOFSL

Exhibit 6: EBITDA margin contracts 90bp YoY to 24.5%



Source: Company, MOFSL

Valuation and view

What has happened in the last 10 years?

- After seeing 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 last three years.
- Its decadal performance has been modest, with a sales/EBITDA/PAT CAGR in the 8–10% range during CY10–20.
- The past five years have seen accelerated growth (~10% sales CAGR), with a 13%/14% EBITDA/PAT CAGR, despite several macro disruptions – the demonetization, GST implementation, and the COVID-19 pandemic – affecting the FMCG sector.
- Starting with damage control since the Maggi crisis in CY15, the management has initiated a series of measures, including (but not limited to): a) focusing 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).

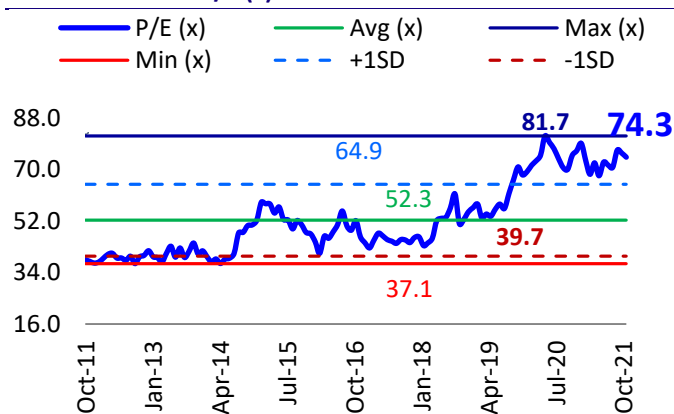
Our view on the stock

- There is no material change to our CY22E and CY23E EPS forecasts.
- The long-term narratives for NEST's revenue and earnings growth are highly attractive. The Packaged Foods segment in India offers immense growth opportunities. This is particularly true for a company such as NEST, which has a strong pedigree and distribution strength. The successful implementation of its volume-led growth strategy in recent years provides confidence in execution as well.
- Valuations at 60.8x CY23E EPS are, however, expensive and do not offer any upside from a one-year perspective. We value the company at 60x CY23E EPS to arrive at our TP of INR19,100. We maintain our **Neutral** stance.

Exhibit 7: Model changes lead to 2.5%/-0.5%/-0.5% change in our CY21E/CY22E/CY23E EPS estimate

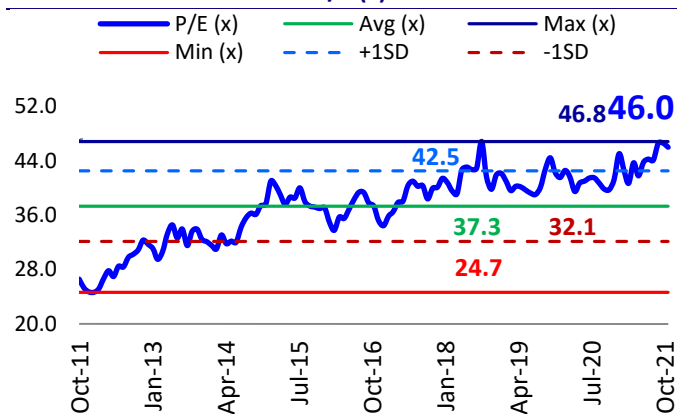
(INR b)	New estimate			Old estimate			Change (%)		
	CY21E	CY22E	CY23E	CY21E	CY22E	CY23E	CY21E	CY22E	CY23E
Net Sales	147.5	167.4	189.5	147.5	167.4	189.5	0.0	0.0	0.0
EBITDA	36.2	40.8	46.5	35.6	41.0	46.7	1.7	-0.5	-0.5
Adjusted PAT	23.5	26.5	30.7	22.9	26.6	30.9	2.5	-0.5	-0.5

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	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	91.4	100.1	112.9	123.7	133.5	147.5	167.4	189.5
Change (%)	11.8	9.5	12.8	9.5	7.9	10.5	13.5	13.2
Gross Profit	52.6	56.8	67.0	71.4	76.8	83.5	96.6	111.0
Margin (%)	57.5	56.8	59.4	57.8	57.5	56.7	57.7	58.6
Other Expenditure	32.3	34.6	39.7	42.4	44.6	47.3	55.7	64.5
EBITDA	20.3	22.2	27.3	29.1	32.2	36.2	40.8	46.5
Change (%)	23.3	9.4	23.0	6.3	10.7	12.7	12.7	13.8
Margin (%)	22.2	22.2	24.2	23.5	24.1	24.6	24.4	24.5
Depreciation	3.5	3.4	3.4	3.7	3.7	4.0	4.7	5.2
Int. and Fin. Ch.	0.9	0.9	1.1	1.3	1.6	2.1	2.1	2.4
Other Inc.- Rec.	1.5	1.8	2.6	2.5	1.5	1.2	1.5	2.2
PBT	17.4	19.6	25.4	26.5	28.3	31.4	35.4	41.1
Change (%)	23.5	13.1	29.5	4.3	6.6	11.0	12.9	16.0
Margin (%)	19.0	19.6	22.5	21.4	21.2	21.3	21.2	21.7
Tax	5.4	6.1	8.2	7.1	7.3	7.9	8.9	10.4
Tax Rate (%)	31.3	31.3	32.3	26.6	25.8	25.2	25.2	25.2
Adjusted PAT	11.9	13.5	17.2	19.5	21.0	23.5	26.5	30.7
Change (%)	3.2	13.2	27.5	13.1	7.6	11.9	12.9	16.0
Margin (%)	13.0	13.5	15.2	15.7	15.7	15.9	15.8	16.2
Non-rec. (Exp)/Inc.	1.9	1.2	1.1	0.2	0.1	0.2	0.2	0.2
Reported PAT	10.0	12.3	16.1	19.2	20.8	23.3	26.3	30.5

Balance Sheet								(INR b)
Y/E December	2016	2017	2018	2019	2020E	2021E	2022E	2023E
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	19.9	20.2	22.7
Net Worth	32.8	34.2	36.7	19.2	20.2	20.8	21.1	23.7
Loans	0.3	0.4	0.4	0.5	0.3	0.3	0.3	0.3
Capital Employed	33.2	34.6	37.1	19.7	20.5	21.2	21.5	24.1
Gross Block	31.0	33.6	34.9	34.9	36.5	46.5	51.5	56.5
Less: Accum. Depn.	3.6	7.4	10.8	13.8	16.8	20.8	25.5	30.7
Net Fixed Assets	27.3	26.2	24.0	21.1	19.7	25.7	26.0	25.8
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
Curr. Assets, L&A	21.4	26.7	29.2	30.9	37.2	34.0	39.2	44.9
Inventory	9.4	9.0	9.7	12.8	14.2	14.4	16.8	16.3
Account Receivables	1.0	0.9	1.2	1.2	1.6	1.2	1.4	1.5
Cash and Bank Balance	8.8	14.6	16.1	13.1	17.7	14.1	16.3	18.8
Others	2.2	2.2	2.2	3.7	3.7	4.3	4.7	8.3
Curr. Liab. and Prov.	33.4	37.8	43.2	51.9	58.5	62.3	68.6	72.7
Account Payables	8.0	9.8	12.4	14.9	15.2	17.3	19.2	21.3
Other Liabilities	5.1	4.2	4.6	7.0	9.5	8.8	10.0	7.5
Provisions	20.3	23.8	26.2	29.9	33.7	36.2	39.4	43.8
Net Curr. Assets	-12.0	-11.1	-14.0	-21.0	-21.3	-28.3	-29.3	-27.7
Def. Tax Liability	-1.6	-1.2	-0.6	-0.1	0.2	0.2	0.2	0.2
Appl. of Funds	33.2	34.6	37.1	19.7	20.5	21.2	21.5	24.1

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E December	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Basic (INR)								
EPS	123.7	140.0	178.6	202.0	217.4	243.3	274.7	318.6
Cash EPS	160.4	175.5	213.4	240.4	255.8	284.6	323.7	372.4
BV/Share	340.4	354.8	381.0	199.0	209.4	216.2	219.2	245.9
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	96.6	98.3	91.0
Valuation (x)								
P/E	156.7	138.4	108.5	95.9	89.1	79.6	70.5	60.8
Cash P/E	120.8	110.4	90.8	80.6	75.7	68.1	59.9	52.0
EV/Sales	20.2	18.3	16.2	14.9	13.7	12.5	11.0	9.7
EV/EBITDA	90.8	82.6	66.8	63.2	57.1	50.7	44.9	39.4
P/BV	56.9	54.6	50.9	97.4	92.5	89.6	88.4	78.8
Dividend Yield (%)	0.3	0.4	0.6	1.8	1.0	1.2	1.4	1.5
Return Ratios (%)								
RoE	39.1	40.3	48.5	69.7	106.5	114.3	126.2	137.0
RoCE	40.8	41.7	50.2	71.9	110.2	119.9	131.7	142.7
Working Capital Ratios								
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	7.1	7.9	8.4
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

(INR b)

Y/E December	2016	2017	2018	2019	2020	2021E	2022E	2023E
OP/(loss) before Tax	15.5	18.4	24.3	26.7	28.1	32.3	36.1	41.3
Int./Div. Received	1.4	1.4	2.5	2.4	1.4	1.2	1.5	2.2
Depn. and Amort.	3.5	3.4	3.4	3.7	3.7	4.0	4.7	5.2
Interest Paid	0.0	0.0	0.0	0.0	0.2	2.1	2.1	2.4
Direct Taxes Paid	5.0	6.0	8.8	6.7	7.0	7.9	8.9	10.4
Incr in WC	2.0	3.7	4.1	1.6	1.0	3.5	3.3	0.8
CF from Operations	14.7	18.2	20.5	23.0	24.5	32.7	35.8	37.2
Others	-1.5	0.6	-2.6	11.7	4.4	0.2	0.6	1.8
Incr in FA	1.1	2.0	1.6	1.5	4.7	10.0	5.0	5.0
Free Cash Flow	13.5	16.2	18.9	21.4	19.8	22.7	30.8	32.2
Pur of Investments	1.5	1.1	1.6	0.2	0.0	1.7	1.0	1.1
CF from Invest.	-4.2	-2.4	-5.8	10.0	-0.4	-11.5	-5.4	-4.4
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	-2.1	-2.1	-2.4
CF from Fin. Activity	-6.7	-10.0	-13.2	-36.0	-19.6	-24.7	-28.2	-30.3
Incr/Decr of Cash	3.8	5.8	1.5	-3.0	4.6	-3.6	2.2	2.5
Add: Opening Balance	5.0	8.8	14.6	16.1	13.1	17.7	14.1	16.3
Closing Balance	8.8	14.6	16.1	13.1	17.7	14.1	16.3	18.8

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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