

Strong growth outlook, Accumulate for long term

October 19, 2021

Q3CY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY22E	CY23E	CY22E	CY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	19,501		19,717	
Sales (Rs. m)	1,65,662	1,85,031	1,66,951	1,86,483
% Chng.	(0.8)	(0.8)		
EBITDA (Rs. m)	40,015	44,676	40,193	45,074
% Chng.	(0.4)	(0.9)		
EPS (Rs.)	279.5	319.2	278.4	319.6
% Chng.	(0.4)	(0.1)		

Key Financials - Standalone

Y/e Dec (Rs bn)	CY20	CY21E	CY22E	CY23E
Sales (Rs. bn)	134	148	166	185
EBITDA (Rs. bn)	32	37	40	45
Margin (%)	24.1	24.6	24.2	24.1
PAT (Rs. bn)	21	24	27	31
EPS (Rs.)	217.4	247.1	279.5	319.2
Gr. (%)	5.2	13.7	13.1	14.2
DPS (Rs.)	196.0	210.0	215.0	245.0
Yield (%)	1.0	1.1	1.1	1.3
RoE (%)	106.5	110.0	104.1	96.5
RoCE (%)	141.3	147.8	137.1	125.5
EV/Sales (x)	13.8	12.4	11.0	9.8
EV/EBITDA (x)	57.3	50.4	45.7	40.7
PE (x)	89.1	78.4	69.3	60.7
P/BV (x)	92.5	80.8	65.1	53.2

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.20,609 / Rs.15,425
Sensex / Nifty	61,716 / 18,419
Market Cap	Rs.1,867bn/ \$ 24,784m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.2754.02m

Shareholding Pattern (%)

Promoter's	63.76
Foreign	13.43
Domestic Institution	6.92
Public & Others	17.89
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.0)	13.3	20.4
Relative	(8.2)	(11.9)	(21.2)

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Quick Pointers:

- Domestic Sales grew 10.1% aided by high single digit volume growth
- Strong double digit growth across key brands except Maggi

Nestlé sustained double digit growth as all categories except Maggi posted double digit sales growth led by strong consumer traction and gradual opening up of the economy. NEST continues to gain across channels with MT growing in mid-twenties while E-Com is sustaining faster growth. NEST's has increased focus on rural growth by increasing village coverage by 33% through relevant/ rural centric products which will accelerate growth as rural and semi-urban markets are growing at 2-2.5x of urban and are contributing just ~20-22% of sales of Nestle.

NEST's capex plan is on track and it has commissioned Sanand facility which will ease supply constraints in Noodles and also reduce cost given highly modern and state of the art facility. We expect near term margin pressure to sustain given inflation in Palmoil, Coffee, wheat and Liquid Milk. We estimate 13.6% PAT CAGR over CY21-23. We maintain Accumulate rating with a TP of Rs 19,501 on DCF basis (Rs19,717 earlier). Long term outlook is intact but expect back ended returns given rich valuations of 63.8xSept23 EPS.

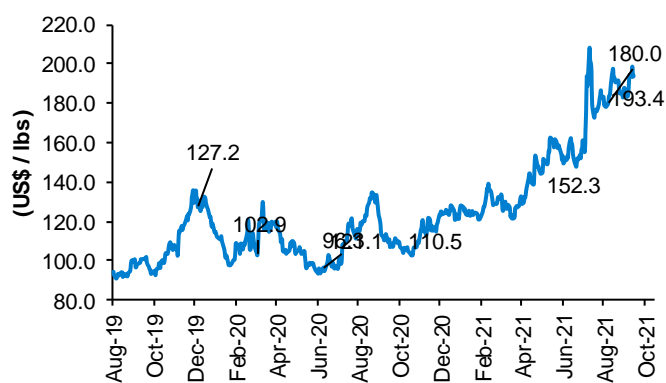
- Sales up by 9.6%, PAT up by 4.1%:** Revenues grew 9.6% YoY to Rs38.8bn (PLe: Rs38.9bn) with Domestic/ Export Sales up by 10.1%/1.3%. Domestic sales saw strong high single digit volume and mix growth. Gross margins contracted by 240bps YoY to 55.7% (PLe: 56.5%), impacted by RM inflation. EBITDA grew by 6.5% YoY to Rs9.5bn (PLe: Rs9.4bn). EBITDA margins contracted by 70bps to 24.5% (PLe: 24%) despite 40bps/130bps improvement in Employee/ other expenses. Adj. PAT grew by 4% to Rs6.2bn (PLe: Rs6bn)
- Post 2nd wave, sustained improvement seen across channels:** With easing of restrictions and rising vaccination counts boosting consumer confidence, there is sustained improvement seen across channels. NEST continued to gain increasing traction in e-com. Organized trade saw broad based growth across all food & beverages (especially coffee & confectionery). Out of Home channel too recovered to pre-pandemic levels in some geographies with gradual opening of hotels, Restaurants, offices & malls.
- Strong growth witnessed across key brands:** Despite a high base, MAGGI noodles and MAGGI Masala-e-Magic posted good growth. Infant Nutrition, MILKYBAR, KITKAT, MUNCH, MILKYBAR, NESCAFE classic posted strong double-digit growth aided by 1) media campaigns 2) attractive consumer promotions 3) distribution drives and 4) increased penetration.
- Inflationary commodity environment a near term headwind:** Price outlook of key commodities like wheat, coffee, edible oils remains firm. In addition to this, rising cost of packaging materials, fuel and transportation costs are likely to keep margins under pressure in the near term despite focus on cost optimization and efficiencies.

Exhibit 1: Q3CY21 Results: Revenue up 9.6% YoY; Gross Margins contract by 240bps

Y/e Dec (Rs mn)	Q3CY21	Q3CY20	YoY gr. (%)	Q2CY21	9MCY21	9MCY20	YoY gr. (%)
Net Sales	38,826	35,417	9.6	34,767	1,09,701	99,174	10.6
Gross Profit	21,627	20,574	5.1	19,819	62,579	56,480	10.8
<i>% of NS</i>	<i>55.7</i>	<i>58.1</i>		<i>57.0</i>	<i>57.0</i>	<i>57.0</i>	
Other Expenses	12,104	11,639	4.0	11,481	35,416	31,955	10.8
EBITDA	9,523	8,935	6.6	8,339	27,163	24,525	10.8
<i>Margins (%)</i>	<i>24.5</i>	<i>25.2</i>		<i>24.0</i>	<i>24.8</i>	<i>24.7</i>	
Depreciation	955	911	4.9	953	2,851	2,749	3.7
Interest	519	405	28.3	517	1,576	1,222	29.0
Other Income	337	345	(2.3)	295	928	1,153	(19.5)
PBT	8,386	7,965	5.3	7,164	23,663	21,707	9.0
Tax	2,169	1,994	8.8	1,919	6,184	5,608	10.3
<i>Effective tax rate (%)</i>	<i>25.9</i>	<i>25.0</i>		<i>26.8</i>	<i>26.1</i>	<i>25.8</i>	
Adjusted PAT	6,217	5,970	4.1	5,245	17,479	16,099	8.6

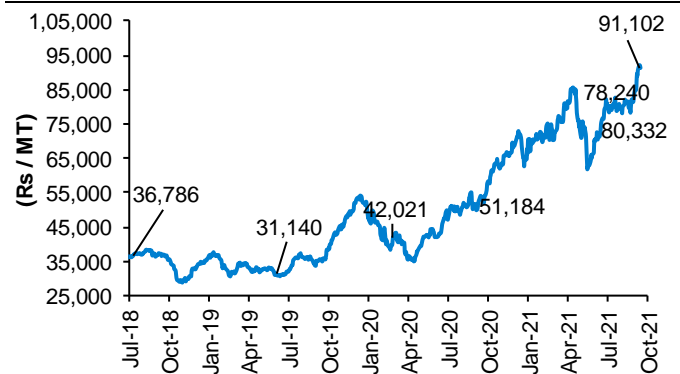
Source: Company, PL

Exhibit 2: Coffee prices up 57.5% YoY and 23.2% QoQ



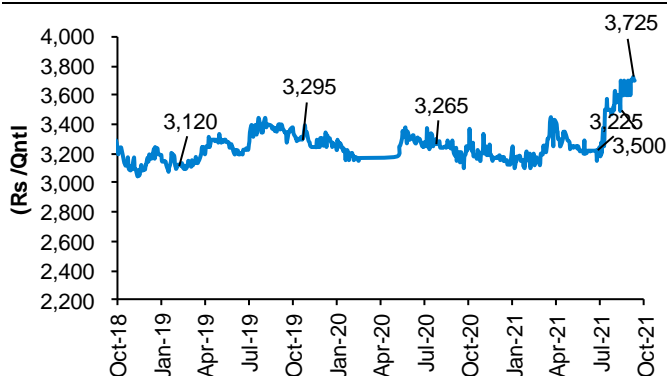
Source: Company, PL

Exhibit 3: Palmoil prices up 59.5% YoY, 4.4% QoQ



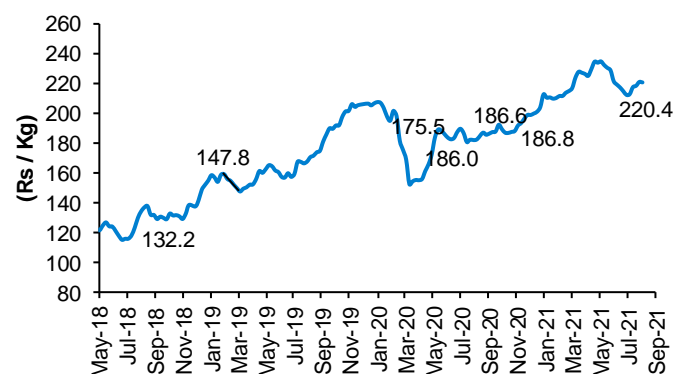
Source: Company, PL

Exhibit 4: Sugar up 4.2% YoY & 3.9% QoQ



Source: Company, PL

Exhibit 5: SMP prices up 19.7% YoY



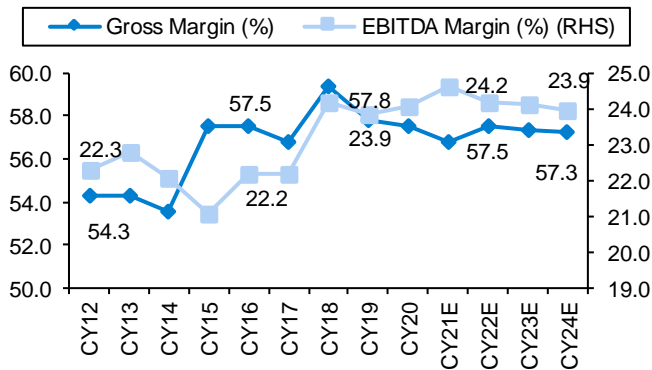
Source: Bloomberg, PL

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

Y/e March	CY17	CY18	CY19	CY20	CY21E	CY22E	CY23E
Milk Products							
Volume (MT)	1,30,796	1,37,066	1,38,941	1,38,402	1,44,630	1,50,415	1,56,432
<i>Volume growth</i>	1.6%	4.8%	1.4%	-0.4%	4.5%	4.0%	4.0%
Sales Value (Rs m)	48,196	51,876	56,518	61,488	66,825	72,278	78,176
<i>Growth in Value</i>	4.0%	7.6%	8.9%	8.8%	8.7%	8.2%	8.2%
<i>% of sales</i>	47.6%	46.3%	46.0%	46.3%	45.3%	43.9%	42.5%
Beverages							
Volume (MT)	24,423	27,013	26,380	20,772	22,018	22,899	23,815
Value (Rs m)	13,870	15,226	15,018	14,763	15,961	16,932	17,961
<i>Growth in Volume</i>	10.6%	10.6%	-2.3%	-21.3%	6.0%	4.0%	4.0%
<i>Growth in Value</i>	7.8%	9.8%	-1.4%	-1.7%	8.1%	6.1%	6.1%
<i>%Sales</i>	13.7%	13.6%	12.2%	11.1%	10.8%	10.3%	9.8%
Prepared Dishes & Cooking Aids							
Volume (MT)	2,10,427	2,40,879	2,64,072	2,81,392	3,12,345	3,59,197	4,13,076
Value (Rs m)	27,071	31,053	34,982	39,108	44,278	51,938	60,924
<i>Growth in Volume</i>	19.0%	14.5%	9.6%	6.6%	11.0%	15.0%	15.0%
<i>Growth in Value</i>	16.8%	14.7%	12.7%	11.8%	13.2%	17.3%	17.3%
<i>%Sales</i>	26.7%	27.7%	28.5%	29.4%	30.0%	31.5%	33.1%
Chocolate & Confectionery							
Volume (MT)	36,803	42,197	49,033	50,358	57,660	65,156	72,974
Value (Rs.mn)	13,227	14,007	16,435	17,301	20,206	23,289	26,606
Realisation (Rs./Kg)	359	332	335	344	350	357	365
<i>Growth in volume</i>	4.3%	14.7%	16.2%	2.7%	14.5%	13.0%	12.0%
<i>Growth in Value</i>	9.5%	14.7%	17.3%	5.3%	16.8%	15.3%	14.2%
<i>Growth in Realisations</i>	5.0%	0.0%	1.0%	2.5%	2.0%	2.0%	2.0%
<i>% Sales</i>	13.1%	12.5%	13.4%	13.0%	13.7%	14.1%	14.5%

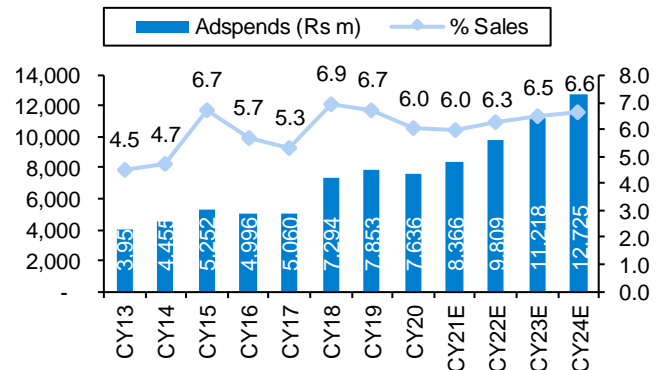
Source: Company, PL

Exhibit 7: Gross Margins expected to have peaked out



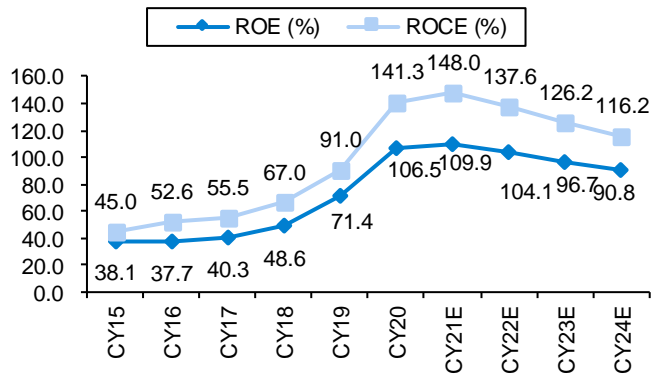
Source: Company, PL

Exhibit 8: Ad-spend is increase gradually going forward



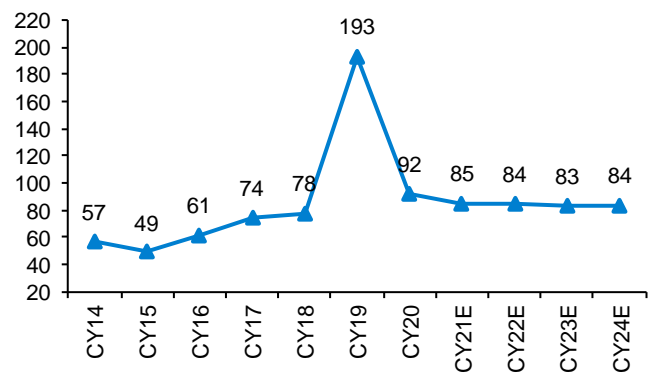
Source: Company, PL

Exhibit 9: ROE and ROCE increased due to special dividend



Source: Company, PL

Exhibit 10: One-time dividend boosted payout in CY19



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY20	CY21E	CY22E	CY23E
Net Revenues	1,33,500	1,48,328	1,65,662	1,85,031
YoY gr. (%)	7.9	11.1	11.7	11.7
Cost of Goods Sold	56,739	64,032	70,436	78,905
Gross Profit	76,761	84,296	95,226	1,06,125
Margin (%)	57.5	56.8	57.5	57.4
Employee Cost	15,010	15,641	17,794	19,416
Other Expenses	15,660	16,803	19,717	22,277
EBITDA	32,155	36,519	40,015	44,676
YoY gr. (%)	9.0	13.6	9.6	11.6
Margin (%)	24.1	24.6	24.2	24.1
Depreciation and Amortization	3,704	4,096	4,225	4,384
EBIT	28,451	32,423	35,790	40,293
Margin (%)	21.3	21.9	21.6	21.8
Net Interest	1,642	1,911	1,941	2,123
Other Income	1,459	1,470	2,170	2,953
Profit Before Tax	28,268	31,982	36,019	41,122
Margin (%)	21.2	21.6	21.7	22.2
Total Tax	7,304	8,155	9,066	10,350
Effective tax rate (%)	25.8	25.5	25.2	25.2
Profit after tax	20,964	23,826	26,953	30,772
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	20,964	23,826	26,953	30,772
YoY gr. (%)	5.2	13.7	13.1	14.2
Margin (%)	15.7	16.1	16.3	16.6
Extra Ord. Income / (Exp)	(140)	(155)	(173)	(194)
Reported PAT	20,825	23,671	26,780	30,578
YoY gr. (%)	5.8	13.7	13.1	14.2
Margin (%)	15.6	16.0	16.2	16.5
Other Comprehensive Income	(922)	(500)	(500)	(500)
Total Comprehensive Income	19,902	23,171	26,280	30,078
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	217.4	247.1	279.5	319.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY20	CY21E	CY22E	CY23E
Non-Current Assets				
Gross Block	62,217	70,027	72,850	76,051
Tangibles	62,217	70,027	72,850	76,051
Intangibles	-	-	-	-
Acc: Dep / Amortization	40,423	43,750	47,284	51,115
Tangibles	40,423	43,750	47,284	51,115
Intangibles	-	-	-	-
Net fixed assets	21,794	26,276	25,565	24,936
Tangibles	21,794	26,276	25,565	24,936
Intangibles	-	-	-	-
Capital Work In Progress	6,386	5,000	5,250	5,513
Goodwill	-	-	-	-
Non-Current Investments	7,874	7,999	8,067	8,144
Net Deferred tax assets	199	607	1,060	1,578
Other Non-Current Assets	894	959	1,071	1,196
Current Assets				
Investments	24,447	27,546	36,553	47,061
Inventories	14,165	13,000	14,260	15,939
Trade receivables	1,649	1,516	1,625	1,765
Cash & Bank Balance	481	515	692	767
Other Current Assets	387	425	468	515
Total Assets	78,997	84,713	95,572	1,08,475
Equity				
Equity Share Capital	964	964	964	964
Other Equity	19,229	22,153	27,703	34,160
Total Network	20,193	23,117	28,667	35,124
Non-Current Liabilities				
Long Term borrowings	317	204	204	204
Provisions	32,683	35,122	37,895	40,924
Other non current liabilities	879	752	687	755
Current Liabilities				
ST Debt / Current of LT Debt	31	-	-	-
Trade payables	15,166	14,911	16,403	18,375
Other current liabilities	9,729	10,606	11,715	13,093
Total Equity & Liabilities	78,997	84,713	95,572	1,08,475

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY20	CY21E	CY22E	CY23E
PBT	28,268	31,982	36,019	41,122
Add. Depreciation	3,704	4,096	4,225	4,384
Add. Interest	1,642	1,911	1,941	2,123
Less Financial Other Income	1,459	1,470	2,170	2,953
Add. Other	650	(410)	(770)	(1,270)
Op. profit before WC changes	34,263	37,578	41,416	46,359
Net Changes-WC	1,083	1,735	1,099	1,383
Direct tax	(7,304)	(8,155)	(9,066)	(10,350)
Net cash from Op. activities	28,042	31,158	33,449	37,392
Capital expenditures	(6,444)	(6,634)	(3,232)	(3,489)
Interest / Dividend Income	1,459	1,470	2,170	2,953
Others	(1,674)	(3,099)	(9,007)	(10,509)
Net Cash from Inv. activities	(6,659)	(8,263)	(10,068)	(11,045)
Issue of share cap. / premium	3	-	-	-
Debt changes	(183)	(144)	-	-
Dividend paid	(18,897)	(20,247)	(20,729)	(23,622)
Interest paid	(1,642)	(1,911)	(1,941)	(2,123)
Others	(593)	(561)	(539)	(537)
Net cash from Fin. activities	(21,312)	(22,864)	(23,210)	(26,282)
Net change in cash	71	31	171	65
Free Cash Flow	21,599	24,524	30,217	33,903

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY20	CY21E	CY22E	CY23E
Per Share(Rs)				
EPS	217.4	247.1	279.5	319.2
CEPS	255.9	289.6	323.4	364.6
BVPS	209.4	239.8	297.3	364.3
FCF	224.0	254.4	313.4	351.6
DPS	196.0	210.0	215.0	245.0
Return Ratio(%)				
RoCE	141.3	147.8	137.1	125.5
ROIC	52.6	57.2	61.4	66.4
RoE	106.5	110.0	104.1	96.5
Balance Sheet				
Net Debt : Equity (x)	(1.2)	(1.2)	(1.3)	(1.4)
Net Working Capital (Days)	2	(1)	(1)	(1)
Valuation(x)				
PER	89.1	78.4	69.3	60.7
P/B	92.5	80.8	65.1	53.2
P/CEPS	255.9	289.6	323.4	364.6
EV/EBITDA	57.3	50.4	45.7	40.7
EV/Sales	13.8	12.4	11.0	9.8
Dividend Yield (%)	1.0	1.1	1.1	1.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q4CY20	Q1CY21	Q2CY21	Q3CY21
Net Revenue	34,326	36,108	34,767	38,826
YoY gr. (%)	9.0	8.6	14.0	9.6
Raw Material Expenses	14,045	14,976	14,948	17,198
Gross Profit	20,281	21,132	19,819	21,627
Margin (%)	59.1	58.5	57.0	55.7
EBITDA	7,739	9,301	8,339	9,523
YoY gr. (%)	15.0	16.2	9.9	6.6
Margin (%)	22.5	25.8	24.0	24.5
Depreciation / Depletion	955	943	953	955
EBIT	6,784	8,358	7,386	8,568
Margin (%)	19.8	23.1	21.2	22.1
Net Interest	420	540	517	519
Other Income	306	297	295	337
Profit before Tax	6,670	8,114	7,164	8,386
Margin (%)	19.4	22.5	20.6	21.6
Total Tax	1,869	2,096	1,919	2,169
Effective tax rate (%)	28.0	25.8	26.8	25.9
Profit after Tax	4,802	6,018	5,245	6,217
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	4,802	6,018	5,245	6,217
YoY gr. (%)	2.6	13.0	5.4	4.1
Margin (%)	14.0	16.7	15.1	16.0
Extra Ord. Income / (Exp)	32	5	141	(44)
Reported PAT	4,833	6,023	5,386	6,174
YoY gr. (%)	2.2	14.6	10.7	5.2
Margin (%)	14.1	16.7	15.5	15.9
Other Comprehensive Income	224	(200)	(348)	(512)
Total Comprehensive Income	5,057	5,822	5,038	5,662
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	49.8	62.4	54.4	64.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-21	Accumulate	19,717	19,104
2	28-Jul-21	Accumulate	19,290	18,023
3	05-Jul-21	Accumulate	18,450	17,602
4	20-Apr-21	Accumulate	18,450	17,096
5	07-Apr-21	Accumulate	17,364	17,417
6	27-Feb-21	Accumulate	17,364	16,102
7	16-Feb-21	Hold	17,364	17,217
8	07-Jan-21	Hold	17,640	18,515
9	05-Nov-20	Hold	17,640	17,221
10	23-Oct-20	Hold	15,122	15,865

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,507	3,212
2	Avenue Supermarts	Accumulate	5,359	5,324
3	Bajaj Electricals	Hold	1,246	1,284
4	Britannia Industries	Accumulate	4,260	3,939
5	Burger King India	BUY	251	159
6	Colgate Palmolive	Accumulate	1,846	1,680
7	Crompton Greaves Consumer Electricals	BUY	518	486
8	Dabur India	Hold	647	615
9	Emami	Accumulate	624	545
10	Havells India	Accumulate	1,414	1,390
11	Hindustan Unilever	Accumulate	2,915	2,686
12	ITC	BUY	271	231
13	Jubilant FoodWorks	Accumulate	4,135	3,934
14	Kansai Nerolac Paints	Accumulate	661	646
15	Marico	Hold	532	564
16	Mold-tek Packaging	BUY	669	666
17	Nestle India	Accumulate	19,717	19,104
18	Pidilite Industries	Reduce	2,221	2,416
19	Titan Company	BUY	2,554	2,148
20	Titan Company	BUY	2,554	2,148
21	Voltas	UR	-	1,250
22	Westlife Development	BUY	605	554

PL's Recommendation Nomenclature (Absolute Performance)

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



ANALYST CERTIFICATION

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