

April 21, 2022

Q1CY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY23E	CY24E	CY23E	CY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	19,426		19,626	
Sales (Rs. m)	185,540	204,343	186,907	205,886
% Chng.	(0.7)	(0.7)		
EBITDA (Rs. m)	44,156	49,315	44,826	50,067
% Chng.	(1.5)	(1.5)		
EPS (Rs.)	303.8	345.8	308.8	351.5
% Chng.	(1.6)	(1.6)		

Key Financials - Standalone

Y/e Dec	CY21	CY22E	CY23E	CY24E
Sales (Rs. bn)	147	167	186	204
EBITDA (Rs. bn)	36	38	44	49
Margin (%)	24.2	22.8	23.8	24.1
PAT (Rs. bn)	24	25	29	33
EPS (Rs.)	244.4	258.1	303.8	345.8
Gr. (%)	12.4	5.6	17.7	13.8
DPS (Rs.)	200.0	215.0	245.0	285.0
Yield (%)	1.1	1.2	1.3	1.6
RoE (%)	114.8	113.2	114.4	108.7
RoCE (%)	152.2	151.1	152.4	143.3
EV/Sales (x)	11.9	10.4	9.3	8.4
EV/EBITDA (x)	49.0	45.7	39.3	35.0
PE (x)	74.5	70.5	59.9	52.6
P/BV (x)	84.2	75.9	62.5	52.8

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.20,609 / Rs.16,255
Sensex / Nifty	57,912 / 17,393
Market Cap	Rs.1,755bn/ \$ 23,045m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1144.18m

Shareholding Pattern (%)

Promoter's	62.76
Foreign	12.01
Domestic Institution	8.50
Public & Others	16.62
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.8	(5.4)	6.5
Relative	0.7	(0.4)	(12.3)

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Nestle India (NEST IN)

Rating: ACCUMULATE | CMP: Rs18,203 | TP: Rs19,426

Margins yet to bottom out: Accumulate

Quick Pointers:

- EPS cut 2.1%/1.6% for CY22/23 due to elevated RM environment
- Margins expected to remain under pressure in 2Q/3QCY22.

We cut CY22/23 EPS estimates by 2.1%/1.6% following 313bps gross margin slippage in 1Q22 despite double digit topline growth and strong momentum across key brands. We expect near term volume pressures led by grammage reduction LUP's in chocolates, Maggi and Milk products. Medium to long term growth drivers remain intact led by 1) sustained expansion in rural reach (only 20% of sales) 2) availability of capacity in Maggi 3) huge scope of growth in segments like coffee, RTD and Chocolates and 4) higher growth in channels of future like E-commerce (up 71% YoY in 1Q, 6.3% of domestic revenues). While we expect further pickup in growth in OOH segments, 4th covid wave might be a risk in the near term.

We expect near term margin pressure to sustain given inflation in Coffee, Palm oil, Milk and SMP. We factor in EBITDA margin decline of 140bps in CY22 (40bps over CY21-23) as scale efficiencies, mix and pricing actions won't be able to neutralize 10-year high inflation. We estimate 12.4% PAT CAGR over CY21-23. We expect back ended returns given near term margin pressures and rich valuations of 62.3x CY23 EPS. We maintain Accumulate with a TP of Rs 19,426 on DCF basis (Rs19,626 earlier).

Sales up by 10.2%, PAT down by -0.2%: Revenues grew by 10.2% YoY to Rs39.8bn (PLe: Rs 40.4bn) with domestic/export sales up by 10.2%/-1.0%. Gross margins contracted by 313bps YoY to 55.4% (PLe: 56.2%) impacted due to high RM cost, particularly edible oils, milk and its derivatives and packaging materials, partly offset by better realisations. EBITDA grew by 0.1% YoY to Rs9.3bn (PLe:Rs 9.6bn); Margins contracted by 238bps YoY to 23.4% (PLe:23.8%). Lower employee & other expenses as a % of sales helped to partially offset the raw material pressure. Adjusted PAT declined by 0.2% YoY to Rs6bn (PLe:Rs 6.4bn). Board declared an interim dividend of Rs25/ share on 11th April 2022.

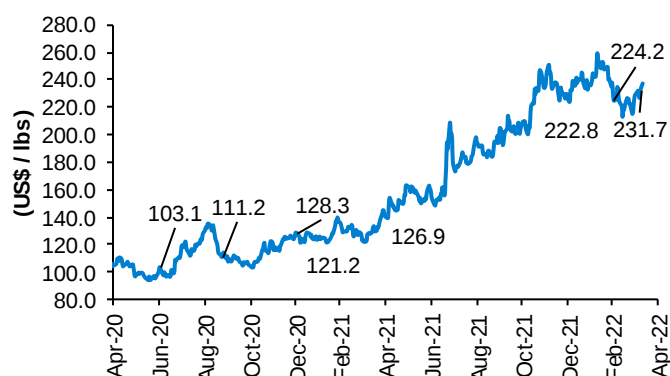
Double digit growth across key brands, input pressure to remain over short term: MAGGI noodles KITKAT, MUNCH, NESCAFÉ Classic and Sunrise reported double digit growth 1) media campaigns 2) consumer promotions 3) analytics-based consumer insights 4) geo-targeted distribution drives and 5) festive seasons. Price outlook of key commodities like wheat, coffee, edible oils, milk and fuel remains firm to bullish which is likely to impact near term margins despite focus on cost optimization and efficiencies.

Expect Gross margin pressure to continue for 2Q/3Q22: NEST continues to witnessed headwinds in commodity prices across edible oils, coffee, wheat, fuel and packaging material. Nutrition business saw pricing actions which helped to partially offset some pressure from rise in milk prices. Inflationary trend across commodities is expected to sustain over the short to medium term.

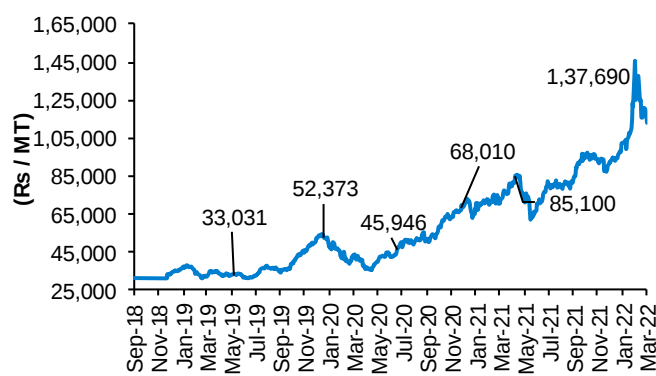
Exhibit 1: Q1CY22 Results: Revenue up 10.2% YoY; Gross Margins contract by 313bps

Y/e Dec (Rs mn)	Q1CY22	Q1CY21	YoY gr. (%)	Q4CY21	QoQ gr. (%)	CY21	CY20	YoY gr. (%)
Net Sales	39,807	36,108	10.2	37,393	6.5	1,47,094	1,33,500	10.2
Gross Profit	22,050	21,132	4.3	21,326	3.4	83,905	76,761	9.3
% of NS	55.4	58.5	-3.1	57.0	-1.6	57.0	57.5	-0.5
Other Expenses	12,742	11,831	7.7	12,813	(0.6)	48,229	44,497	8.4
EBITDA	9,308	9,301	0.1	8,513	9.3	35,676	32,264	10.6
Margins (%)	23.4	25.8	-2.4	22.8	0.6	24.3	24.2	0.1
Depreciation	1,043	943	10.6	1,058	(1.4)	3,909	3,704	5.5
Interest	356	540	(34.2)	436	(18.4)	2,012	1,642	22.5
Other Income	214	297	(27.7)	273	(21.6)	1,201	1,459	(17.6)
PBT	8,124	8,114	0.1	7,293	11.4	30,956	28,377	9.1
Tax	2,115	2,096	0.9	1,205	75.5	7,393	7,477	(1.1)
Effective tax rate (%)	26.0	25.8		16.5		23.9	26.3	
Adjusted PAT	6,008	6,018	(0.2)	6,088	(1.3)	23,563	20,901	12.7

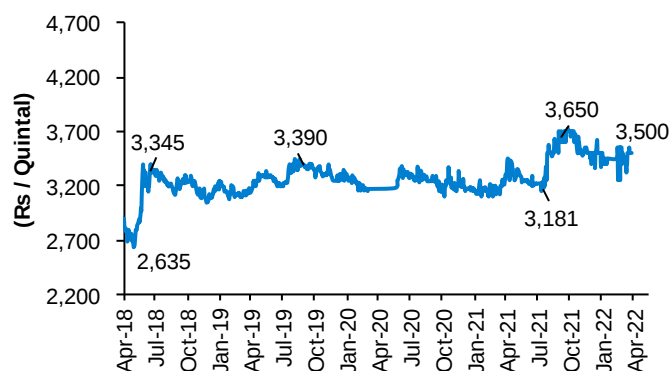
Source: Company, PL

Exhibit 2: Coffee prices up 57.9% YoY and -1.7% QoQ


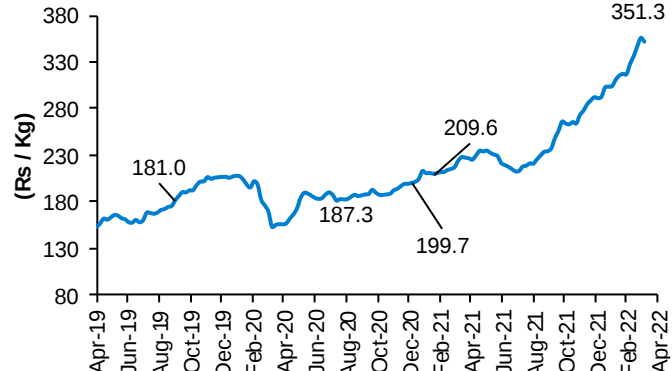
Source: Company, PL

Exhibit 3: Palmoil up 55.2% YoY; down 13.7% from peak


Source: Company, PL

Exhibit 4: Sugar up 6.9% YoY & 1.3% QoQ


Source: Company, PL

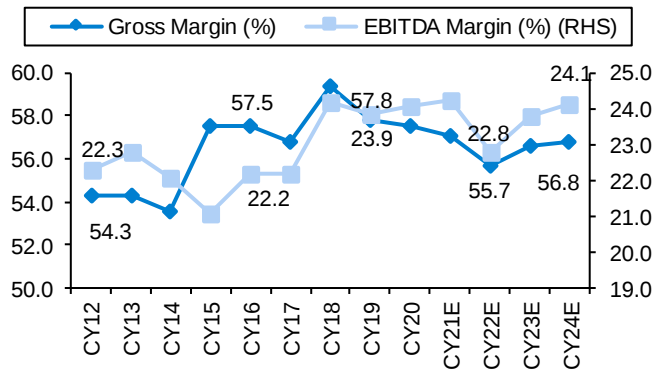
Exhibit 5: SMP prices up 53.7% YoY and 10.0% QoQ


Source: Bloomberg, PL

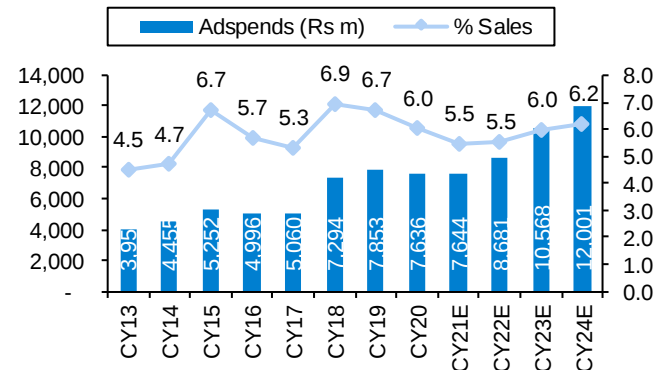
Exhibit 6: Prepared dishes and chocolates to drive long term volume growth

Y/e March	CY18	CY19	CY20	CY21	CY22E	CY23E
Milk Products						
Volume (MT)	1,37,066	1,38,941	1,38,402	1,34,669	1,37,362	1,40,110
Volume growth	4.8%	1.4%	-0.4%	-2.7%	2.0%	2.0%
Sales Value (Rs m)	51,876	56,518	61,488	62,686	67,776	71,897
Growth in Value	7.6%	8.9%	8.8%	1.9%	8.1%	6.1%
% of sales	46.3%	46.0%	46.3%	42.8%	40.8%	38.9%
Beverages						
Volume (MT)	27,013	26,380	20,772	24,507	26,222	28,845
Value (Rs m)	15,226	15,018	14,763	16,918	20,818	23,816
Growth in Volume	10.6%	-2.3%	-21.3%	18.0%	7.0%	10.0%
Growth in Value	9.8%	-1.4%	-1.7%	14.6%	23.1%	14.4%
%Sales	13.6%	12.2%	11.1%	11.6%	12.5%	12.9%
Prepared Dishes & Cooking Aids						
Volume (MT)	2,40,879	2,64,072	2,81,392	3,27,659	3,60,425	4,00,072
Value (Rs m)	31,053	34,982	39,108	45,501	52,554	60,085
Growth in Volume	14.5%	9.6%	6.6%	16.4%	10.0%	11.0%
Growth in Value	14.7%	12.7%	11.8%	16.3%	15.5%	14.3%
%Sales	27.7%	28.5%	29.4%	31.1%	31.6%	32.5%
Chocolate & Confectionery						
Volume (MT)	42,197	49,033	50,358	55,648	59,543	66,689
Value (Rs.mn)	14,007	16,435	17,301	19,501	21,283	24,314
Realisation (Rs./Kg)	332	335	344	350	357	365
Growth in volume	14.7%	16.2%	2.7%	10.5%	7.0%	12.0%
Growth in Value	14.7%	17.3%	5.3%	12.7%	9.1%	14.2%
Growth in Realisations	0.0%	1.0%	2.5%	2.0%	2.0%	2.0%
% Sales	12.5%	13.4%	13.0%	13.3%	12.8%	13.2%

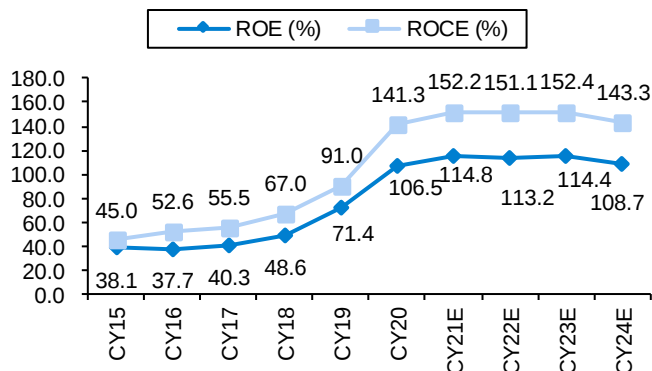
Source: Company, PL

Exhibit 7: Gross Margins expected to decline in CY22


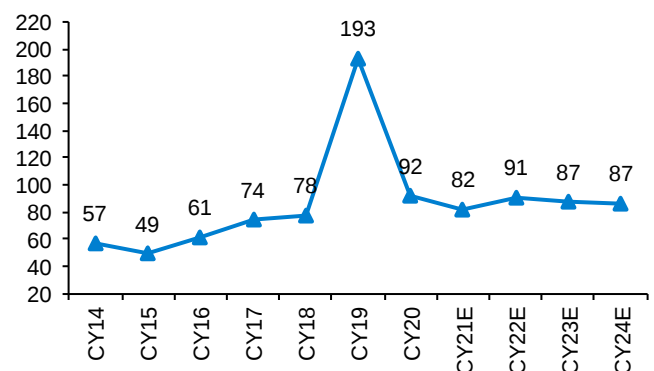
Source: Company, PL

Exhibit 8: Ad-spend to increase gradually


Source: Company, PL

Exhibit 9: ROE and ROCE remain healthy


Source: Company, PL

Exhibit 10: Expect 85-90% dividend payout


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
Net Revenues	147,094	167,042	185,540	204,343
YoY gr. (%)	10.2	13.6	11.1	10.1
Cost of Goods Sold	63,189	73,976	80,475	88,270
Gross Profit	83,905	93,066	105,064	116,073
Margin (%)	57.0	55.7	56.6	56.8
Employee Cost	15,213	16,946	18,647	20,332
Other Expenses	16,768	19,418	22,167	24,470
EBITDA	35,664	38,114	44,156	49,315
YoY gr. (%)	10.9	6.9	15.9	11.7
Margin (%)	24.2	22.8	23.8	24.1
Depreciation and Amortization	3,902	4,423	4,706	4,969
EBIT	31,762	33,691	39,450	44,346
Margin (%)	21.6	20.2	21.3	21.7
Net Interest	2,012	1,055	1,174	1,295
Other Income	1,201	987	1,300	2,006
Profit Before Tax	30,951	33,623	39,576	45,057
Margin (%)	21.0	20.1	21.3	22.0
Total Tax	7,389	8,742	10,290	11,715
Effective tax rate (%)	23.9	26.0	26.0	26.0
Profit after tax	23,562	24,881	29,287	33,342
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	23,562	24,881	29,287	33,342
YoY gr. (%)	12.4	5.6	17.7	13.8
Margin (%)	16.0	14.9	15.8	16.3
Extra Ord. Income / (Exp)	(2,113)	(1,375)	(194)	(214)
Reported PAT	21,449	23,506	29,092	33,129
YoY gr. (%)	3.0	9.6	23.8	13.9
Margin (%)	14.6	14.1	15.7	16.2
Other Comprehensive Income	(1,514)	(500)	(500)	(500)
Total Comprehensive Income	19,935	23,006	28,592	32,629
Equity Shares O/s (m)	96	96	96	96
EPS (Rs)	244.4	258.1	303.8	345.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
Non-Current Assets				
Gross Block	73,390	79,630	84,200	88,657
Tangibles	73,390	79,630	84,200	88,657
Intangibles	-	-	-	-
Acc: Dep / Amortization	43,451	47,451	51,818	56,534
Tangibles	43,451	47,451	51,818	56,534
Intangibles	-	-	-	-
Net fixed assets	29,940	32,179	32,382	32,123
Tangibles	29,940	32,179	32,382	32,123
Intangibles	-	-	-	-
Capital Work In Progress	2,462	2,585	2,715	2,850
Goodwill	-	-	-	-
Non-Current Investments	7,598	7,688	7,753	7,819
Net Deferred tax assets	258	695	1,210	1,796
Other Non-Current Assets	14,746	15,137	15,540	15,955
Current Assets				
Investments	7,430	8,722	17,078	26,026
Inventories	15,802	17,606	19,097	20,896
Trade receivables	1,653	1,821	2,023	2,228
Cash & Bank Balance	557	3,815	3,875	4,053
Other Current Assets	1,040	1,144	1,259	1,385
Total Assets	82,099	92,103	103,714	115,991
Equity				
Equity Share Capital	964	964	964	964
Other Equity	19,881	22,157	27,128	32,278
Total Network	20,845	23,121	28,092	33,242
Non-Current Liabilities				
Long Term borrowings	275	275	275	275
Provisions	32,845	35,492	38,406	41,584
Other non current liabilities	2,102	2,257	2,803	3,262
Current Liabilities				
ST Debt / Current of LT Debt	66	-	-	-
Trade payables	17,349	20,267	22,048	24,184
Other current liabilities	8,618	10,690	12,090	13,445
Total Equity & Liabilities	82,099	92,103	103,714	115,991

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
PBT	30,951	33,623	39,576	45,057
Add. Depreciation	3,902	4,423	4,706	4,969
Add. Interest	2,012	1,055	1,174	1,295
Less Financial Other Income	1,201	987	1,300	2,006
Add. Other	(17,844)	(1,853)	(399)	(1,132)
Op. profit before WC changes	19,021	37,248	45,058	50,190
Net Changes-WC	15,593	1,462	(7,121)	(7,740)
Direct tax	(7,389)	(8,742)	(10,290)	(11,715)
Net cash from Op. activities	27,225	29,968	27,646	30,735
Capital expenditures	(8,124)	(6,785)	(5,038)	(4,846)
Interest / Dividend Income	1,958	1,891	2,215	3,025
Others	301	-	-	-
Net Cash from Invt. activities	(5,865)	(4,894)	(2,824)	(1,822)
Issue of share cap. / premium	-	-	-	-
Debt changes	(8)	(66)	-	-
Dividend paid	(19,283)	(20,729)	(23,622)	(27,478)
Interest paid	(2,012)	(1,055)	(1,174)	(1,295)
Others	-	-	-	-
Net cash from Fin. activities	(21,303)	(21,850)	(24,796)	(28,773)
Net change in cash	58	3,223	26	140
Free Cash Flow	19,101	23,182	22,608	25,889

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY21	CY22E	CY23E	CY24E
Per Share(Rs)				
EPS	244.4	258.1	303.8	345.8
CEPS	284.8	303.9	352.6	397.4
BVPS	216.2	239.8	291.4	344.8
FCF	198.1	240.4	234.5	268.5
DPS	200.0	215.0	245.0	285.0
Return Ratio(%)				
RoCE	152.2	151.1	152.4	143.3
ROIC	42.9	42.3	47.7	51.6
RoE	114.8	113.2	114.4	108.7
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.7)	(0.9)
Net Working Capital (Days)	0	(2)	(2)	(2)
Valuation(x)				
PER	74.5	70.5	59.9	52.6
P/B	84.2	75.9	62.5	52.8
P/CEPS	284.8	303.9	352.6	397.4
EV/EBITDA	49.0	45.7	39.3	35.0
EV/Sales	11.9	10.4	9.3	8.4
Dividend Yield (%)	1.1	1.2	1.3	1.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q2CY21	Q3CY21	Q4CY21	Q1CY22
Net Revenue	34,767	38,826	37,393	39,807
YoY gr. (%)	14.0	9.6	8.9	10.2
Raw Material Expenses	14,948	17,198	16,067	17,757
Gross Profit	19,819	21,627	21,326	22,050
Margin (%)	57.0	55.7	57.0	55.4
EBITDA	8,339	9,523	8,513	9,308
YoY gr. (%)	9.9	6.6	10.0	0.1
Margin (%)	24.0	24.5	22.8	23.4
Depreciation / Depletion	953	955	1,058	1,043
EBIT	7,386	8,568	7,456	8,265
Margin (%)	21.2	22.1	19.9	20.8
Net Interest	517	519	436	356
Other Income	295	337	273	214
Profit before Tax	7,164	8,386	7,293	8,124
Margin (%)	20.6	21.6	19.5	20.4
Total Tax	1,919	2,169	1,205	2,115
Effective tax rate (%)	26.8	25.9	16.5	26.0
Profit after Tax	5,245	6,217	6,088	6,008
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,245	6,217	6,088	6,008
YoY gr. (%)	5.4	4.1	26.8	(0.2)
Margin (%)	15.1	16.0	16.3	15.1
Extra Ord. Income / (Exp)	141	(44)	(2,221)	(61)
Reported PAT	5,386	6,174	3,867	5,947
YoY gr. (%)	10.7	5.2	(20.0)	(1.3)
Margin (%)	15.5	15.9	10.3	14.9
Other Comprehensive Income	(348)	(512)	(454)	1
Total Comprehensive Income	5,038	5,662	3,412	5,948
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	54.4	64.5	63.1	62.3

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	Accumulate	19,626	18,453
2	17-Feb-22	Accumulate	19,120	18,126
3	06-Jan-22	Accumulate	18,723	19,936
4	29-Oct-21	Accumulate	19,501	18,965
5	19-Oct-21	Accumulate	19,501	19,368
6	06-Oct-21	Accumulate	19,717	19,104
7	28-Jul-21	Accumulate	19,290	18,023
8	05-Jul-21	Accumulate	18,450	17,602

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,542	3,206
2	Avenue Supermarts	Accumulate	5,345	4,146
3	Bajaj Electricals	Accumulate	1,278	1,091
4	Britannia Industries	BUY	3,823	3,353
5	Colgate Palmolive	Accumulate	1,664	1,565
6	Crompton Greaves Consumer Electricals	BUY	531	376
7	Dabur India	Accumulate	603	556
8	Emami	Accumulate	607	464
9	Havells India	Accumulate	1,378	1,268
10	Hindustan Unilever	BUY	2,356	2,183
11	ITC	BUY	285	268
12	Jubilant FoodWorks	Accumulate	3,230	2,792
13	Kansai Nerolac Paints	BUY	675	464
14	Marico	Accumulate	538	518
15	Mold-tek Packaging	BUY	793	797
16	Nestle India	Accumulate	19,626	18,453
17	Pidilite Industries	Hold	2,417	2,525
18	Polycab India	Hold	2,385	2,684
19	Restaurant Brands Asia	BUY	220	113
20	Titan Company	BUY	2,754	2,510
21	Voltas	Hold	1,182	1,318
22	Westlife Development	BUY	645	497

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

(Indian Clients)

We/I, Mr. Amnish Aggarwal- MBA, CFA, Mr. Harish Advani- PGDM Finance, Ms. Aashi Rara- CA, B.Com Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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