

Estimate changes



TP change



Rating change



Bloomberg	NEST IN
Equity Shares (m)	96
M.Cap.(INRb)/(USD\$b)	1755.3 / 23
52-Week Range (INR)	20600 / 16267
1, 6, 12 Rel. Per (%)	1/0/-15
12M Avg Val (INR M)	1181

Financials & Valuations (INR b)

Y/E Dec	2021	2022E	2023E
Sales	147.1	165.4	186.9
Sales Gr. (%)	10.2	12.5	13.0
EBITDA	35.7	38.2	43.7
Margin (%)	24.3	23.1	23.4
Adj. PAT	23.2	24.6	28.6
Adj. EPS (INR)	240.8	254.9	296.3
EPS Gr. (%)	10.8	5.8	16.2
BV/Sh.(INR)	216.2	221.1	217.4

Ratios

RoE (%)	113.2	116.6	135.2
RoCE (%)	109.5	109.7	126.9
Payout (%)	83.0	98.1	101.2

Valuations

P/E (x)	75.6	71.4	61.4
P/BV (x)	84.2	82.3	83.7
EV/EBITDA (x)	48.4	45.1	39.4
Div. Yield (%)	1.1	1.4	1.6

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	62.8	62.8	62.8
DII	7.9	8.0	7.8
FII	12.4	12.3	12.8
Others	17.0	16.9	16.7

FII Includes depository receipts

CMP: INR18,206

TP: INR18,450 (+1%)

Neutral

Result in line; gross margin pressure higher than expected

- Nestlé India (NEST)'s 1QCY22 numbers were largely in line with our estimates, with an overall sales growth of 10.2% YoY v/s our estimate of 12%. Domestic sales rose 10.2% YoY while exports declined marginally by 1% YoY.
- Gross margin pressure continued; it contracted 310bp YoY and 160bp QoQ to 55.4% (**at 19-quarter low**) v/s our expectation of 56.5%. According to the management, material cost pressure is here to stay for the time being and hence we believe it may adversely affect operating margin going ahead.
- While we like the longer term investment case for NEST driven by its high topline growth potential, expensive valuations and commodity cost concerns warrant a **Neutral** rating on the stock, in our opinion.

Domestic sales growth momentum continues

- NEST reported net sales growth of 10.2% YoY to INR39.8b (largely in line).** Domestic sales grew 10.2% YoY driven by volume and mix whereas export sales dipped marginally by 1% YoY during the quarter. According to our calculation, **volume growth should be around 6-7% YoY in 1QCY22.**
- Gross margin contracted 310bp YoY to 55.4% due to the ongoing commodity cost pressures.**
- EBITDA** remained flat YoY at INR9.3b (est. INR9.2b) likely due to lower ad spends (ad spends not reported separately). PBT came in line at INR8.1b.
- Adj. PAT was in line with our estimate of INR6b (flat YoY) in 1QCY22.**
- Other income decreased 27.7% YoY to INR214m during the quarter, indicating lower yields.
- The Board has declared an interim dividend of INR25 per share amounting to INR2.4b.

Key highlights from the management commentary

- Outlook on commodity costs:** Cost outlook for key commodities such as **edible oils, coffee, wheat, and fuel remains firm to bullish** while the cost of **packaging materials continues to increase** amid supply constraints, and rising fuel and transportation costs. Input costs are likely to be higher both globally and locally. **Fresh milk costs are expected to remain firm** with continued increase in demand and rise in feed costs to farmers.
- NEST's key brands continued to perform well with Maggi Noodles, KitKat, Nestlé Munch, Nescafé Classic and Sunrise reporting **double-digit growth in 1QCY22.**
- NEST posted robust e-commerce performance as the channel grew 71% YoY (driven by new emerging formats such as 'quick commerce' and 'click & mortar' for the channel) and now contributes 6.3% of domestic sales.
- Growth of Maggi Sauces and Maggi Masala-ae-Magic growth was impacted by high base and a gradual shift from in-house cooking to out-of-home consumption.

Long-term growth story intact; near-term valuation expensive – Neutral

- Raw material pressures have led to 2.0% and 1.2% reduction in NEST's CY22 and CY23 EPS, respectively.
- The long-term narratives for revenue and earnings growth are highly attractive. The Packaged Foods segment offers immense growth opportunities in India. 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.
- Nevertheless, as highlighted in our [annual report note](#) as well as [commodity cost note](#), NEST is facing commodity cost headwinds and with four consecutive years of ad-spends to sales decline up to CY21 (to 5.5% of domestic sales in CY21, second lowest in the last seven years) the buffer to protect EBITDA margin erosion from gross margin pressures may not be available without constraining volume growth.
- NEST's valuation at ~61x CY23E P/E is expensive and does not offer any significant upside from a one-year perspective. We value the company at 60x Mar'24 EPS to arrive at our TP of INR18,450. With 1% potential upside, we maintain our **Neutral** rating on the stock.

Quarterly performance

(INR m)												
Y/E December	CY21				CY22				CY21	CY22E	Estimate	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net Sales	36,108	34,767	38,826	37,393	39,807	39,287	43,097	43,233	1,47,094	1,65,423	40,441	-1.6
YoY Change (%)	8.6	14.0	9.6	8.9	10.2	13.0	11.0	15.6	10.2	12.5	12.0	
COGS	14,976	14,948	17,198	16,067	17,757	17,404	18,962	18,884	63,189	73,007	17,592	
Gross Profit	21,132	19,819	21,627	21,326	22,050	21,883	24,134	24,349	83,905	92,416	22,849	-3.5
Margin (%)	58.5	57.0	55.7	57.0	55.4	55.7	56.0	56.3	57.0	55.9	56.5	
Operating Exp	11,831	11,481	12,104	12,813	12,742	12,847	14,136	14,497	48,229	54,221	13,629	
EBITDA	9,301	8,339	9,523	8,513	9,308	9,036	9,998	9,853	35,676	38,195	9,221	0.9
Margins (%)	25.8	24.0	24.5	22.8	23.4	23.0	23.2	22.8	24.3	23.1	22.8	
YoY Growth (%)	16.2	9.9	5.9	12.4	0.1	8.4	5.0	15.7	10.9	7.1	-0.9	
Depreciation	936	953	955	1,058	1,043	1,096	1,146	1,223	3,902	4,508	1,105	
Interest	540	517	519	436	356	465	508	642	2,012	1,972	459	
Other income	297	295	337	273	214	250	300	377	1,201	1,141	300	
PBT	8,121	7,164	8,386	7,293	8,124	7,725	8,644	8,364	30,963	32,856	7,957	2.1
Tax	2,096	1,919	2,169	1,560	2,115	1,947	2,178	2,040	7,744	8,280	2,005	
Rate (%)	25.8	26.8	25.9	21.4	26.0	25.2	25.2	24.4	25.0	25.2	25.2	
Adjusted PAT	6,024	5,245	6,217	5,733	6,008	5,778	6,465	6,324	23,219	24,576	5,951	1.0
YoY Change (%)	13.1	5.4	3.2	23.6	-0.3	10.2	4.0	10.3	10.8	5.8	-1.2	

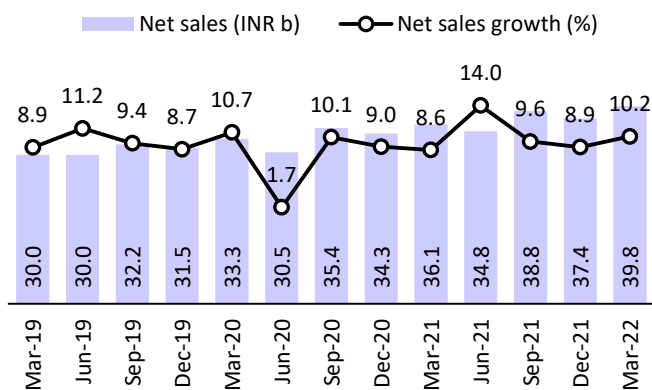
E: MOFSL Estimates

Key Performance Indicators

Y/E December	CY21				CY22
	1Q	2Q	3Q	4Q	1Q
2Y average growth (%)					
Sales	9.7	7.8	9.9	9.0	9.4
EBITDA	10.4	7.5	11.0	11.1	8.1
PAT	12.7	8.3	1.5	11.4	6.4
% of Sales					
COGS	41.5	43.0	44.3	43.0	44.6
Employee Expenses	10.2	10.9	10.0	10.3	10.2
Other Expenses	22.6	22.1	21.2	23.9	25.2
Depreciation	2.6	2.7	2.5	2.8	2.6
YoY change (%)					
COGS	3.1	12.2	15.9	14.4	18.6
Employee Expenses	2.7	2.4	5.0	-4.1	7.8
Other Expenses	14.3	30.3	4.2	3.1	7.7
Other Income	-30.8	-22.3	-2.3	-10.7	-27.7
EBIT	17.9	10.9	6.0	12.6	-1.2

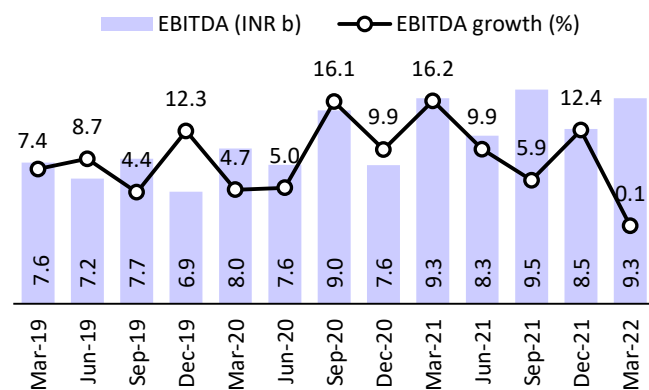
Key exhibits

Exhibit 1: Net sales up 10.2% YoY to INR39.8b



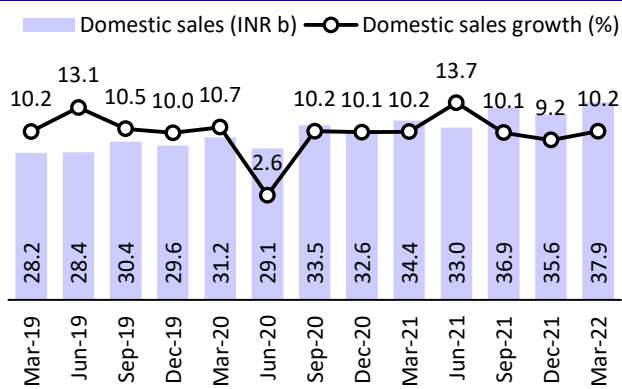
Source: Company, MOFSL

Exhibit 2: EBITDA remained flat YoY at INR9.3b



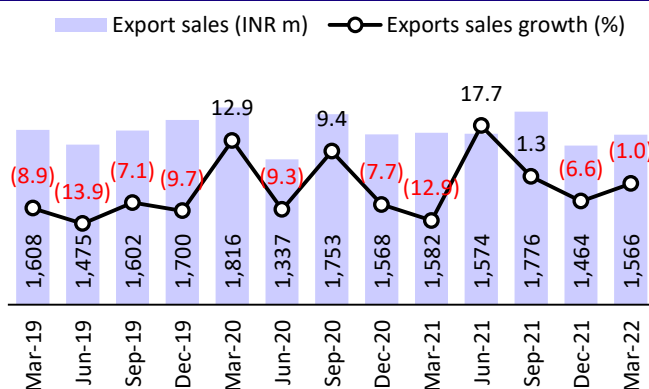
Source: Company, MOFSL

Exhibit 3: Domestic sales rose 10.2% YoY to INR37.9b



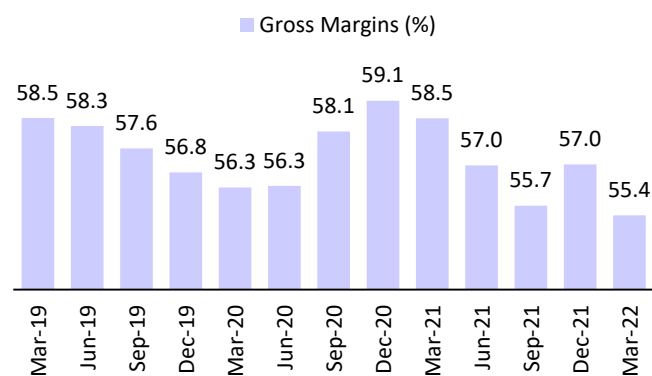
Source: Company, MOFSL

Exhibit 4: Exports dipped marginally by 1% to INR1.6b



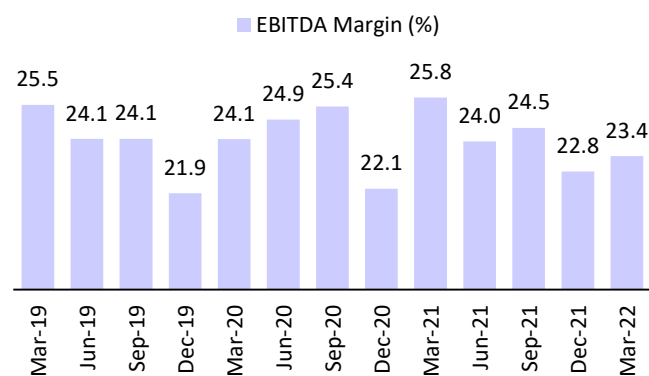
Source: Company, MOFSL

Exhibit 5: Gross margin at 19-quarter low



Source: Company, MOFSL

Exhibit 6: EBITDA margin expanded 60bp YoY to 23.4%



Source: Company, MOFSL

Valuation and view

What has happened over the last 10 years?

- After experiencing weak growth on all fronts in the first half of the decade, NEST has done well in the second half, particularly in the last four years.
- Its decadal performance has been modest, with sales/EBITDA/PAT CAGR in the 7-9% range over CY11-21.
- The past five years have seen accelerated growth (~10% sales CAGR), with an EBITDA/PAT CAGR of 12%/14%, respectively, despite several macro disruptions – demonetization, GST rollout, the COVID-19 pandemic and commodity cost headwinds – impairing 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) over 90 product launches since CY16, c) backing up launches, with a sharp increase in ad spends, and d) focusing on distribution expansion (more recently).

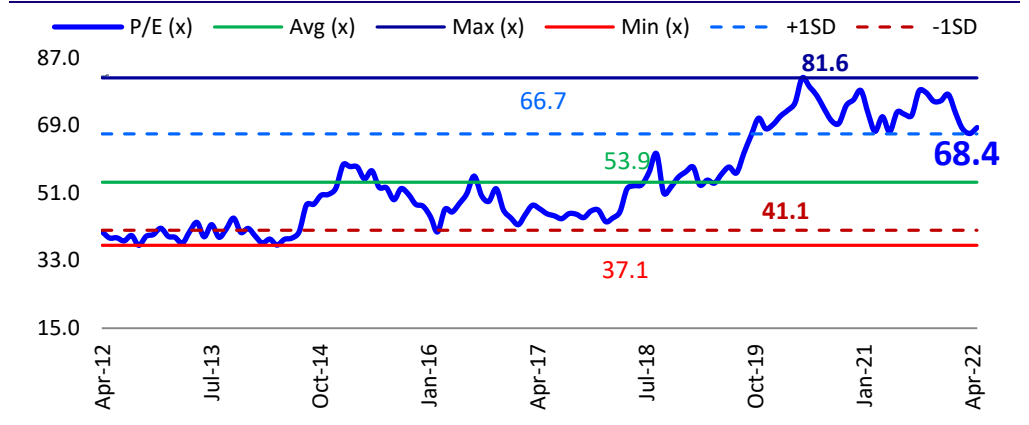
Long-term growth story intact; near-term valuation expensive – Neutral

- Raw material pressures have led to 2.0%/1.2% reduction in NEST's CY22 and CY23 EPS, respectively.
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Exhibit 7: Model changes lead to a -2%/1.2% change in our CY22E/CY23E EPS

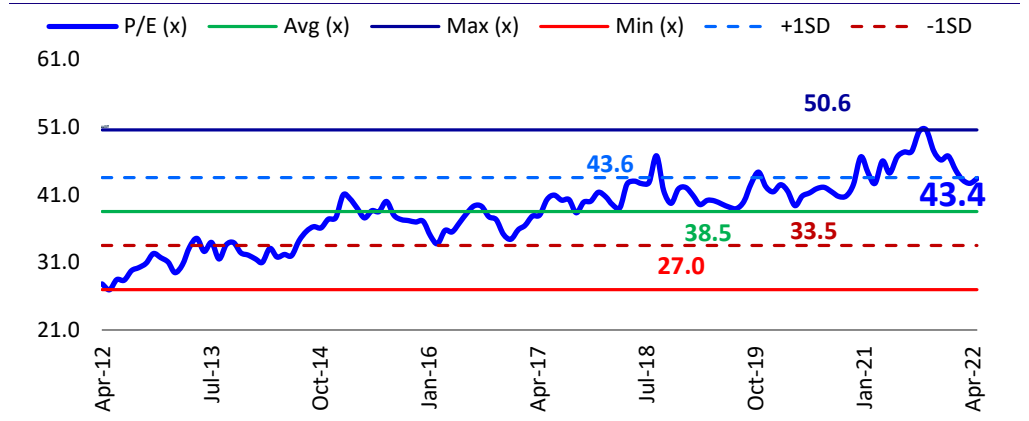
(INR b)	New estimate		Old estimate		Change (%)	
	CY22E	CY23E	CY22E	CY23E	CY22E	CY23E
Net Sales	165.4	186.9	167.0	188.7	(1.0)	(1.0)
EBITDA	38.2	43.7	38.8	44.4	(1.5)	(1.5)
Adjusted PAT	24.6	28.6	25.1	28.9	(2.0)	(1.2)

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	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	
Net Sales	100.1	112.9	123.7	133.5	147.1	165.4	186.9	
Change (%)	9.5	12.8	9.5	7.9	10.2	12.5	13.0	
Gross Profit	56.8	67.0	71.4	76.8	83.9	92.4	106.3	
Margin (%)	56.8	59.4	57.8	57.5	57.0	55.9	56.9	
Other Expenditure	34.6	39.7	42.4	44.6	48.2	54.2	62.6	
EBITDA	22.2	27.3	29.1	32.2	35.7	38.2	43.7	
Change (%)	9.4	23.0	6.3	10.7	10.9	7.1	14.5	
Margin (%)	22.2	24.2	23.5	24.1	24.3	23.1	23.4	
Depreciation	3.4	3.4	3.7	3.7	3.9	4.5	5.0	
Int. and Fin. Ch.	0.9	1.1	1.3	1.6	2.0	2.0	2.2	
Other Inc. – Rec.	1.8	2.6	2.5	1.5	1.2	1.1	1.6	
PBT	19.6	25.4	26.5	28.3	31.0	32.9	38.2	
Change (%)	13.1	29.5	4.3	6.6	9.5	6.1	16.2	
Margin (%)	19.6	22.5	21.4	21.2	21.0	19.9	20.4	
Tax	6.1	8.2	7.1	7.3	7.7	8.3	9.6	
Tax Rate (%)	31.3	32.3	26.6	25.8	25.0	25.2	25.2	
Adjusted PAT	13.5	17.2	19.5	21.0	23.2	24.6	28.6	
Change (%)	13.2	27.5	13.1	7.6	10.8	5.8	16.2	
Margin (%)	13.5	15.2	15.7	15.7	15.8	14.9	15.3	
Non-rec. (Exp.)/Inc.	1.2	1.1	0.2	0.1	1.8	0.0	0.0	
Reported PAT	12.3	16.1	19.2	20.8	21.4	24.6	28.6	

Balance Sheet							(INR b)	
Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E	
Share Capital	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Reserves	33.2	35.8	18.2	19.2	19.9	20.4	20.0	
Net Worth	34.2	36.7	19.2	20.2	20.8	21.3	21.0	
Loans	0.4	0.4	0.5	1.5	2.7	2.7	2.7	
Capital Employed	34.6	37.1	19.7	21.7	23.5	24.0	23.6	
Gross Block								
Less: Accum. Deprn.	33.6	34.9	34.9	40.0	51.2	56.2	61.2	
Net Fixed Assets	7.4	10.8	13.8	18.2	21.2	25.7	30.7	
Capital WIP	26.2	24.0	21.1	21.8	29.9	30.4	30.4	
Investments	0.9	1.1	1.4	6.4	2.5	2.5	2.5	
Current	19.8	26.6	18.3	15.5	22.2	22.7	23.2	
Non-current	13.9	19.3	10.1	7.2	0.6	0.7	0.8	
Curr. Assets, L&A	5.9	7.3	8.2	8.3	21.6	22.0	22.4	
Inventory	26.7	29.2	30.9	35.1	27.2	35.0	38.0	
Account Receivables	9.0	9.7	12.8	14.2	15.8	17.1	16.6	
Cash and Bank Balance	0.9	1.2	1.2	1.6	1.7	1.4	1.5	
Others	14.6	16.1	13.1	17.7	7.4	13.6	13.8	
Curr. Liab. and Prov.	2.2	2.2	3.7	1.6	2.4	3.0	6.1	
Account Payables	37.8	43.2	51.9	57.3	58.6	66.9	70.7	
Other Liabilities	9.8	12.4	14.9	15.2	17.3	19.8	21.8	
Provisions	4.2	4.6	7.0	8.4	7.0	9.9	7.4	
Net Curr. Assets	23.8	26.2	29.9	33.7	34.2	37.2	41.5	
Def. Tax Liability	-11.1	-14.0	-21.0	-22.2	-31.4	-31.9	-32.7	
Appl. of Funds	-1.2	-0.6	-0.1	0.2	0.3	0.3	0.3	

E: MOFSL estimates

Financials and valuations

Ratios

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
Basic (INR)							
EPS	140.0	178.6	202.0	217.4	240.8	254.9	296.3
Cash EPS	175.5	213.4	240.4	255.8	281.3	301.6	348.0
BV/Share	354.8	381.0	199.0	209.4	216.2	221.1	217.4
DPS	86.0	115.0	342.0	200.0	200.0	250.0	300.0
Payout (%)	61.4	64.4	169.3	92.0	83.0	98.1	101.2
Valuation (x)							
P/E	130.0	101.9	90.1	83.7	75.6	71.4	61.4
Cash P/E	103.7	85.3	75.7	71.2	64.7	60.3	52.3
EV/Sales	17.2	15.2	13.9	12.9	11.7	10.4	9.2
EV/EBITDA	77.5	62.7	59.4	53.6	48.4	45.1	39.4
P/BV	51.3	47.8	91.5	86.9	84.2	82.3	83.7
Dividend Yield (%)	0.5	0.6	1.9	1.1	1.1	1.4	1.6
Return Ratios (%)							
RoE	40.3	48.5	69.7	106.5	113.2	116.6	135.2
RoCE	41.7	50.2	71.9	107.2	109.5	109.7	126.9
Working Capital Ratios							
Debtor (Days)	3.2	4.1	3.7	4.5	4.1	3.0	3.0
Asset Turnover (x)	2.8	3.1	4.3	6.5	6.6	7.0	7.9
Leverage Ratio							
Debt/Equity ratio (x)	0.0	0.0	0.0	0.1	0.1	0.1	0.1

Cash Flow Statement

Y/E December	CY17	CY18	CY19	CY20	CY21	CY22E	CY23E
(INR b)							
OP/(loss) before Tax	18.4	24.3	26.7	28.1	28.8	33.7	38.7
Int./Div. Received	1.4	2.5	2.4	1.4	1.2	1.1	1.6
Depn. and Amort.	3.4	3.4	3.7	3.7	3.9	4.5	5.0
Interest Paid	0.0	0.0	0.0	0.2	0.0	2.0	2.2
Direct Taxes Paid	6.0	8.8	6.7	7.0	7.3	8.3	9.6
Incr. in WC	3.7	4.1	1.6	1.0	-1.5	6.8	1.0
CF from Operations	18.2	20.5	23.0	24.5	22.7	37.5	35.7
Others	0.6	-2.6	11.7	4.4	-5.6	0.3	1.1
Incr. in FA	2.0	1.6	1.5	4.7	7.3	5.0	5.0
Free Cash Flow	16.2	18.9	21.4	19.8	15.4	32.5	30.7
Pur of Investments	1.1	1.6	0.2	0.0	0.0	0.5	0.5
CF from Invest.	-2.4	-5.8	10.0	-0.4	-12.9	-5.2	-4.4
Incr. in Debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Paid	8.3	10.9	29.5	18.9	19.3	24.1	28.9
Others	-1.7	-2.3	-6.5	-0.7	-0.9	-2.0	-2.2
CF from Fin. Activity	-10.0	-13.2	-36.0	-19.6	-20.2	-26.1	-31.1
Incr./Decr. in Cash	5.8	1.5	-3.0	4.6	-10.3	6.2	0.2
Add: Opening Balance	8.8	14.6	16.1	13.1	17.7	7.4	13.6
Closing Balance	14.6	16.1	13.1	17.7	7.4	13.6	13.8

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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