

July 28, 2022

Q2CY22 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY23E	CY24E	CY23E	CY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	19,721		19,426	
Sales (Rs. m)	1,85,540	2,04,343	1,85,540	2,04,343
% Chng.	-	-	-	-
EBITDA (Rs. m)	44,156	49,315	44,156	49,315
% Chng.	-	-	-	-
EPS (Rs.)	303.8	345.8	303.8	345.8
% Chng.	-	-	-	-

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 (%)	1.0	1.1	1.3	1.5
RoE (%)	114.8	113.2	114.4	108.7
RoCE (%)	152.2	151.1	152.4	143.3
EV/Sales (x)	12.5	11.0	9.8	8.9
EV/EBITDA (x)	51.5	48.0	41.3	36.8
PE (x)	78.2	74.1	62.9	55.3
P/BV (x)	88.4	79.7	65.6	55.4

Key Data

NEST.BO | NEST IN

52-W High / Low	Rs.20,609 / Rs.16,000
Sensex / Nifty	56,858 / 16,930
Market Cap	Rs.1,843bn/ \$ 23,105m
Shares Outstanding	96m
3M Avg. Daily Value	Rs.1282.34m

Shareholding Pattern (%)

Promoter's	62.76
Foreign	11.65
Domestic Institution	9.14
Public & Others	16.45
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	9.8	4.0	6.0
Relative	2.7	4.6	(2.2)

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Strong volumes in Inflationary environment

Quick Pointers:

- NEST has reported 7% volume & 9% pricing/mix growth during 2Q22.
- Announced entry into Rs40bn pet food category under PURINA brand by acquisition of 100% subsidiary of parent company for Rs 1.23bn.
- Launched GERBER brand in premium toddler food range in India

NEST continues to show double digit growth across key segments primarily led by mid to high single digit volume growth, pricing & mix improvement. NEST's continued focus on Rurban strategy resulting in double digit growth in small towns & villages while T1/2 cities sustained momentum. GM softened by 100bps QoQ due to high input costs and we expect it to bottom out with softening up of edible oil price & packing materials whereas prices of milk, grain & coffee remains an overhang in near term.

Mgt highlighted its growth strategy around 1) Innovations being part of Nestlé's DNA (contribution up from 1.5% to 5.6% in 5 years) 2) Expanding reach with increased focus on Rural through creation of Rural distribution centers and wholesale hubs led to 2x growth in villages. 3) unleash the potential of evolving categories and 4) Increased focus on creating more SKUs across different brands. We believe PURINA acquisition provides entry into a high growth segment, however given small size, it will not move the needle in the medium term. Launch of GERBER marks entry in premium toddler food products, however expect slow scalability given super premium pricing. We estimate 12.4% PAT CAGR over CY21-24 and assign DCF based target price of Rs19721 (Rs19426 earlier). Retain Accumulate.

Acquisition of Pet food business: NEST announced acquisition of pet food business from PURINA Pet care India for Rs 1.23 bn valuing at 3.4x of FY22 sales. Pet Food Business as a category stand at Rs 40 bn with 25% sales CAGR while PURINA's revenue has been estimated to grow by 50% with FY22-26 CAGR. PURINA's business is driven by specialist channel distribution network across 46 towns with 50 CDs & 185 suppliers. The acquisition marks change in the strategy of the company over the past 4 years as the category emerged from being an evolving segment to one with exciting future.

Launch of toddler food brand GERBER in India: Nestle is entering the toddler food segment with launch of its global brand GERBER in India. The emerging toddler segment as a category stands at ~ Rs 35 bn. GERBER will be a made in India product designed for Indian toddlers combining the benefits of four diverse groups: Cereal, Legumes, Milk and Fruits/Vegetables. The launch will able Nestle fill in product gap at the premium end, although we expect slow scalability given premium pricing and niche segment.

Gross margins contracted by 304 bps: Revenues grew by 16.1% YoY (3 year CAGR of 10.4%) to Rs40.4bn (PLe: Rs 38.9bn) with domestic/ export sales up by 16.4%/ 0.7%. Gross margins contracted by 304bps YoY to 54% impacted due to higher RM cost particularly in milk, fuel, grain & green coffee and costs are expected to remain firm in the near term. EBITDA grew by 1.8% YoY to Rs8.5bn, Margins contracted by 295bps YoY to 21%. Lower employee cost (80bps) as a % of sales helped to partially offset the raw material pressure. Adjusted PAT grew by 3.9% YoY to Rs5.5bn.

Key Takeaways: 1) Demand trends accelerated in mega cities while RURBAN strategy helps in improving demand in rural villages 2) 14.3% (2Q/1Q: 6.3%/8.5%) realization growth witnessed in 1HCY22. 3) Ecommerce business contribution to sales reached to 6.4%. 4) Nestlé focuses on innovation led growth, 100 products launched in past 5 years with contribution up from 1.5% to 5.6% till Jun'22. 5) Edible oil & packing materials is softening up whereas volatility will remain in prices of milk, grain & coffee in near term 6) Calibrated price hikes balanced with cost efficiencies helped to partially offset inflation. 7) MILKMAID posted strong double digit growth which has led to 7.2% growth for 1HCY22 in milk products. 8) Pricing index for GERBER products will be 7x as that of MAGGI.

Exhibit 1: 2QCY22 Results: Revenue up 16.1%, margins decline 295bps.

Y/e Dec (Rs mn)	2QCY22	2QCY21	YoY gr. (%)	1QCY22	QoQ gr. (%)	H1CY22	H1CY21	YoY gr. (%)
Net Sales	40,366	34,767	16.1	39,807	1.4	80,173	70,875	1.4
Gross Profit	21,782	19,819	9.9	22,050	(1.2)	43,832	40,951	(1.2)
<i>% of NS</i>	<i>54.0</i>	<i>57.0</i>	<i>-3.0</i>	<i>55.4</i>	<i>-1.4</i>	<i>54.7</i>	<i>57.8</i>	<i>-1.4</i>
Other Expenses	13,291	11,481	15.8	12,742	4.3	26,033	23,312	4.3
EBITDA	8,492	8,339	1.8	9,308	(8.8)	17,800	17,640	(8.8)
<i>Margins (%)</i>	<i>21.0</i>	<i>24.0</i>	<i>-2.9</i>	<i>23.4</i>	<i>-2.3</i>	<i>22.2</i>	<i>24.9</i>	<i>-2.3</i>
Depreciation	1,016	953	6.6	1,043	(2.6)	2,058	1,896	(2.6)
Interest	370	517	(28.5)	356	3.9	725	1,057	3.9
Other Income	194	295	(34.3)	214	(9.7)	408	591	(9.7)
PBT	7,300	7,164	1.9	8,124	(10.1)	15,424	15,277	(10.1)
Tax	1,850	1,919	(3.6)	2,115	(12.5)	3,965	4,118	(12.5)
<i>Effective tax rate (%)</i>	<i>25.3</i>	<i>26.8</i>		<i>26.0</i>		<i>25.7</i>	<i>27.0</i>	
Adjusted PAT	5,450	5,245	3.9	6,008	(9.3)	11,459	11,160	(9.3)

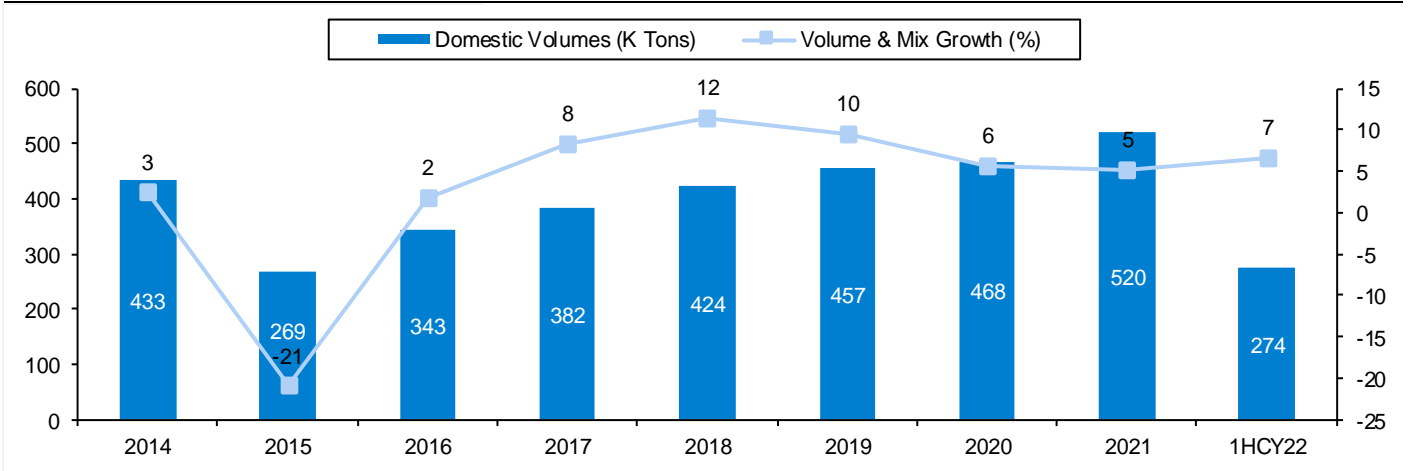
Source: Company, PL

Exhibit 2: Growth led by Confectionary & beverages (YTD Jun'22)

Particulars	Revenue Contribution (%)	Sales Growth (%)
Milk Products and Nutrition	41.2	7.2
Prepared dishes and cooking aids	32.4	13.9
Confectionary	15.9	24.4
Powdered and liquid beverages	10.5	21.7

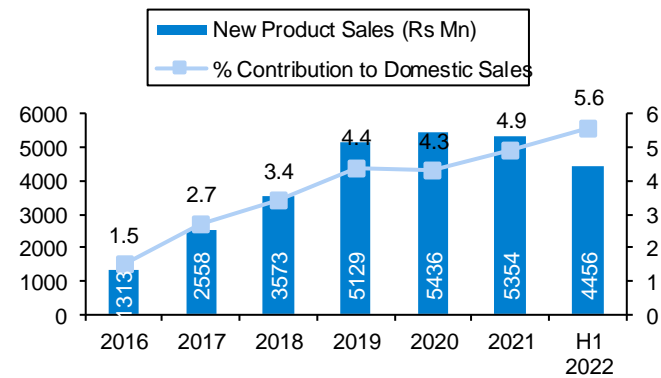
Source: Company, PL

Exhibit 3: Volume growth of 5% achieved in FY21 while volume growth has improved to 7% during 1HCY22



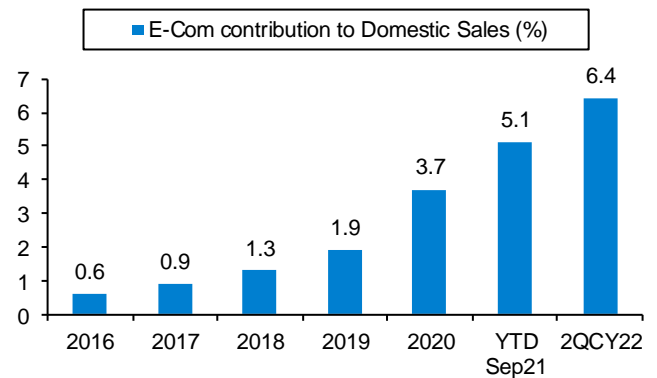
Source: Company, PL

Exhibit 4: New Product contribution stands at 5.6%



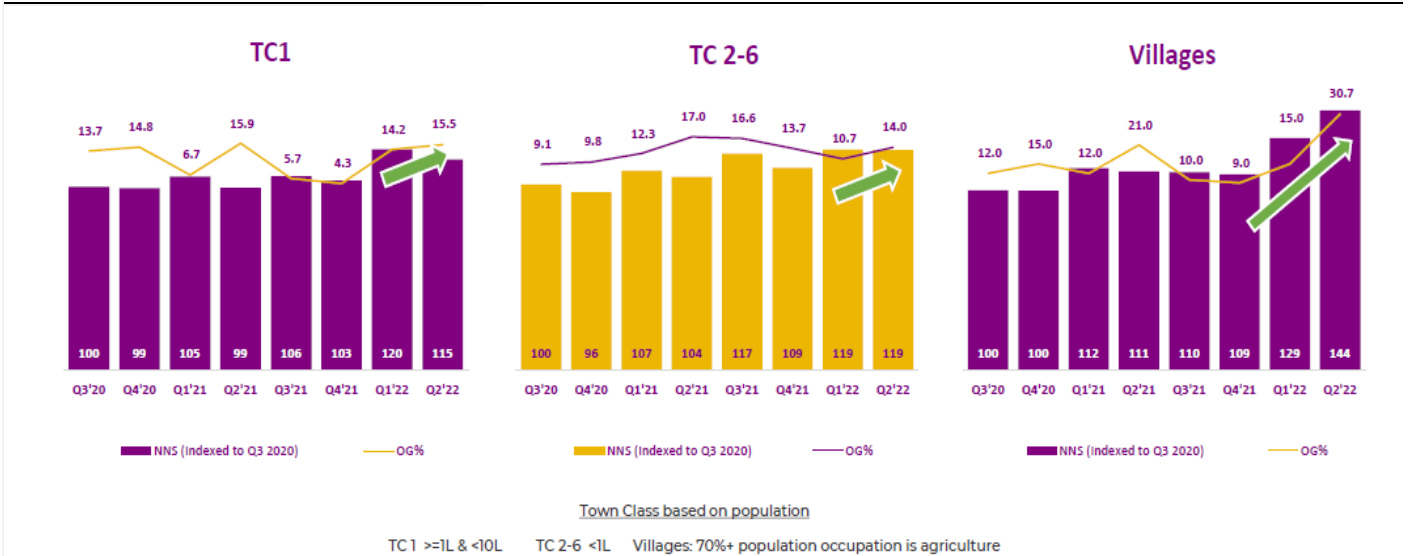
Source: Company, PL

Exhibit 5: E-Com now accounts for 6.4%



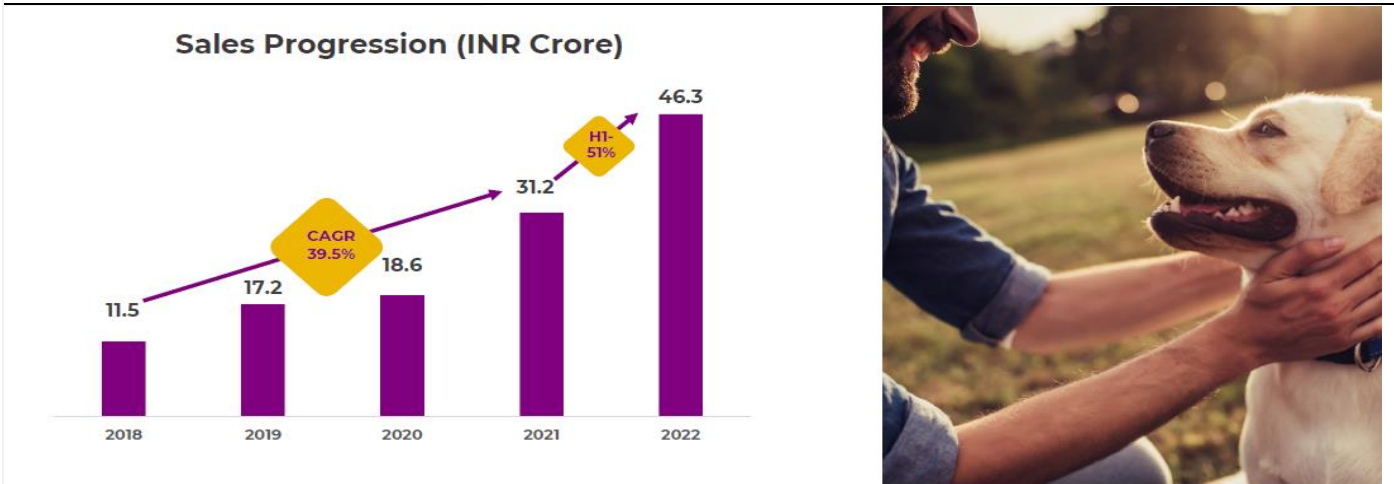
Source: Company, PL

Exhibit 6: Small town accelerates, strong uptick in rural



Source: Company, PL

Exhibit 7: Purina Petcare India revenue estimated to grow by 50% CAGR over FY22-26



Source: Company, PL

Exhibit 8: PURINA– Wide offering of products gaining traction among Indian pet owners



Source: Company, PL

Exhibit 9: Nestlé India launched global nutrition brand GERBER in India



Source: Company, PL

Exhibit 10: Double Digit Growth Across Key Segments

Y/e Dec	CY19	CY21	CY22E	CY23E	CY24E
Milk Products					
Volume (MT)	1,38,402	1,34,669	1,37,362	1,40,110	1,43,192
Volume growth	-0.4%	-2.7%	2.0%	2.0%	2.2%
Sales Value (Rs.mn)	61,488	62,686	67,776	71,897	76,418
Sales Growth	8.8%	1.9%	8.1%	6.1%	6.3%
% of sales	46.3%	42.8%	40.8%	38.9%	37.6%
Beverages					
Volume (MT)	20,772	24,507	26,222	28,845	31,152
Value (Rs.mn)	14,763	16,918	20,818	23,816	26,235
Growth in volume	-21.3%	18.0%	7.0%	10.0%	8.0%
Growth in Value	-1.7%	14.6%	23.1%	14.4%	10.2%
%sales	11.1%	11.6%	12.5%	12.9%	12.9%
Prepared Dishes & Cooking Aids					
Volume (MT)	2,81,392	3,27,659	3,60,425	4,00,072	4,40,079
Value (Rs.mn)	39,108	45,501	52,554	60,085	67,415
Growth in volume	6.6%	16.4%	10.0%	11.0%	10.0%
Growth in Value	11.8%	16.3%	15.5%	14.3%	12.2%
%sales	29.4%	31.1%	31.6%	32.5%	33.2%
Chocolate & Confectionery					
Volume (MT)	50,358	55,648	59,543	66,689	74,691
Value (Rs.mn)	17,301	19,501	21,283	24,314	27,776
Realisation (Rs./Kg)	344	350	357	365	372
Growth in volume	2.7%	10.5%	7.0%	12.0%	12.0%
Growth in Value	5.3%	12.7%	9.1%	14.2%	14.2%
Growth in Realisations	2.5%	2.0%	2.0%	2.0%	2.0%
%sales	13.0%	13.3%	12.8%	13.2%	13.7%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Dec	CY21	CY22E	CY23E	CY24E
Net Revenues	1,47,094	1,67,042	1,85,540	2,04,343
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	1,05,064	1,16,073
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	1,03,714	1,15,991
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	1,03,714	1,15,991

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 Inv. 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	78.2	74.1	62.9	55.3
P/B	88.4	79.7	65.6	55.4
P/CEPS	284.8	303.9	352.6	397.4
EV/EBITDA	51.5	48.0	41.3	36.8
EV/Sales	12.5	11.0	9.8	8.9
Dividend Yield (%)	1.0	1.1	1.3	1.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q3CY21	Q4CY21	Q1CY22	Q2CY22
Net Revenue	38,826	37,393	39,807	40,366
YoY gr. (%)	9.6	8.9	10.2	16.1
Raw Material Expenses	17,198	16,067	17,757	18,583
Gross Profit	21,627	21,326	22,050	21,782
Margin (%)	55.7	57.0	55.4	54.0
EBITDA	9,523	8,513	9,308	8,492
YoY gr. (%)	6.6	10.0	0.1	1.8
Margin (%)	24.5	22.8	23.4	21.0
Depreciation / Depletion	955	1,058	1,043	1,016
EBIT	8,568	7,456	8,265	7,476
Margin (%)	22.1	19.9	20.8	18.5
Net Interest	519	436	356	370
Other Income	337	273	214	194
Profit before Tax	8,386	7,293	8,124	7,300
Margin (%)	21.6	19.5	20.4	18.1
Total Tax	2,169	1,205	2,115	1,850
Effective tax rate (%)	25.9	16.5	26.0	25.3
Profit after Tax	6,217	6,088	6,008	5,450
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	6,217	6,088	6,008	5,450
YoY gr. (%)	4.1	26.8	(0.2)	3.9
Margin (%)	16.0	16.3	15.1	13.5
Extra Ord. Income / (Exp)	(44)	(2,221)	(61)	(297)
Reported PAT	6,174	3,867	5,947	5,153
YoY gr. (%)	5.2	(20.0)	(1.3)	(4.3)
Margin (%)	15.9	10.3	14.9	12.8
Other Comprehensive Income	(512)	(454)	1	13
Total Comprehensive Income	5,662	3,412	5,948	5,167
Avg. Shares O/s (m)	96	96	96	96
EPS (Rs)	64.5	63.1	62.3	56.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	Accumulate	19,426	18,205
2	21-Apr-22	Accumulate	19,426	18,203
3	08-Apr-22	Accumulate	19,626	18,453
4	17-Feb-22	Accumulate	19,120	18,126
5	06-Jan-22	Accumulate	18,723	19,936
6	29-Oct-21	Accumulate	19,501	18,965
7	19-Oct-21	Accumulate	19,501	19,368
8	06-Oct-21	Accumulate	19,717	19,104

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,363	3,109
2	Avenue Supermarts	BUY	4,636	3,942
3	Britannia Industries	UR	-	3,810
4	Colgate Palmolive	Accumulate	1,701	1,564
5	Dabur India	Accumulate	603	544
6	Emami	Accumulate	611	470
7	Hindustan Unilever	Accumulate	2,699	2,568
8	ITC	BUY	305	292
9	Jubilant FoodWorks	Accumulate	710	571
10	Kansai Nerolac Paints	BUY	513	396
11	Marico	Accumulate	544	499
12	Mold-tek Packaging	Accumulate	830	765
13	Nestle India	Accumulate	19,426	18,205
14	Pidilite Industries	Hold	2,389	2,237
15	Restaurant Brands Asia	UR	-	111
16	Titan Company	BUY	2,520	2,014
17	Titan Company	BUY	2,520	2,128
18	Westlife Development	BUY	653	524

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

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(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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